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AUTHOR Porter, Kathryn; And Others
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ABSTRACT

Data which demonstrate increasing poverty in the United States are collected in this report. Following a brief introduction, six sections present information to support these major findings: (1) Today there is a growing trend toward income disparity between rich and poor. Americans of moderate incomes as well as those classified as poor have lost ground, while wealthy Americans have surged ahead. (2) Poverty is more extensive today than it has been for quite some time: the poverty rates for each of the past three years have been well above the poverty rates of the 1970s and higher than those for any year since the mid-1960s. (3) The belief that the poor are a distinct group who live in poverty much of their lives is false. In fact, large numbers of Americans are poor, or can expect to be poor, at some time in their lives. (4) Major reductions in Federal domestic programs since 1980 have disproportionately affected those with low or moderate incomes and have contributed to the rise in poverty. (5) The 1980s budget cuts were made in programs that were already inadequate. Federal benefit programs have large gaps, fail to reach millions who are poor, and provide benefit levels that, in most cases, fall well below the poverty line. (6) In a time of support program reductions, those with low and moderate incomes have had to face the additional burden of rapidly rising costs for basic necessities as well as higher taxes. An appendix contains a discussion of the ongoing debate over whether food stamps and other non-cash benefits should be included in the poverty count. (KH)

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Smaller Slices of the Pie

The Growing Economic Vulnerability of Poor and Moderate Income Americans

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Center on Budget and Policy Priorities
236 Massachusetts Avenue, N.E.
Suite 305
Washington, D.C. 20002

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The principal authors of this report are Kathryn Porter, Robert Greenstein, and John Bickerman. David Kahan and Michael Wenger also contributed research assistance. Emily Gray and Leslie Zupan typed the draft; Jill Schwartz supervised production. Special thanks to Tom Blanton of the Villers Foundation for his assistance in seeing this report through from conception to completion.

SMALLER SLICES OF THE PIE

The Growing Economic Vulnerability of Poor and Moderate Income Americans

Prepared by the Center on Budget and Policy Priorities

November 1985

FOREWORD

The Center on Budget and Policy Priorities has produced a report which I believe will help change the very terms of the debate in this country over poverty and economic vulnerability. Between its covers, the careful reader will find a complete and disturbing portrait of the all too real human conditions, not only of America's poor, but also of all Americans who remain vulnerable to a single development that could force them into poverty — developments such as the loss of a job, or illness or death in the family.

The data presented in this report are also a graphic indictment of governmental policies at both federal and state levels — policies that have taken from many who are poor or vulnerable, while giving to the wealthy and many large corporations. This approach could have serious consequences for the future of our country.

Fortunately, we now have the Center's detailed analysis of past policies and current conditions. This represents a first step toward correcting these problems; but it will require renewed commitment from all Americans — poor, rich, and middle income alike — to restore the American dream. Many of us already working to these ends regard this report, along with other work from the Center on Budget and Policy Priorities, as a crucial resource to aid in this task.

Arthur S. Flemming

[Secretary of Health, Education and Welfare under President Eisenhower; Commissioner of Aging and Chair of the U.S. Civil Rights Commission under Presidents Nixon, Ford and Carter]

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INTRODUCTION

Not too many years ago, poverty and the living conditions of low and moderate income Americans were central issues on the American political scene. Now, less attention is given to these matters. Other issues — the deficit, the defense build-up, our foreign trade problems, arms control — are more in the spotlight.

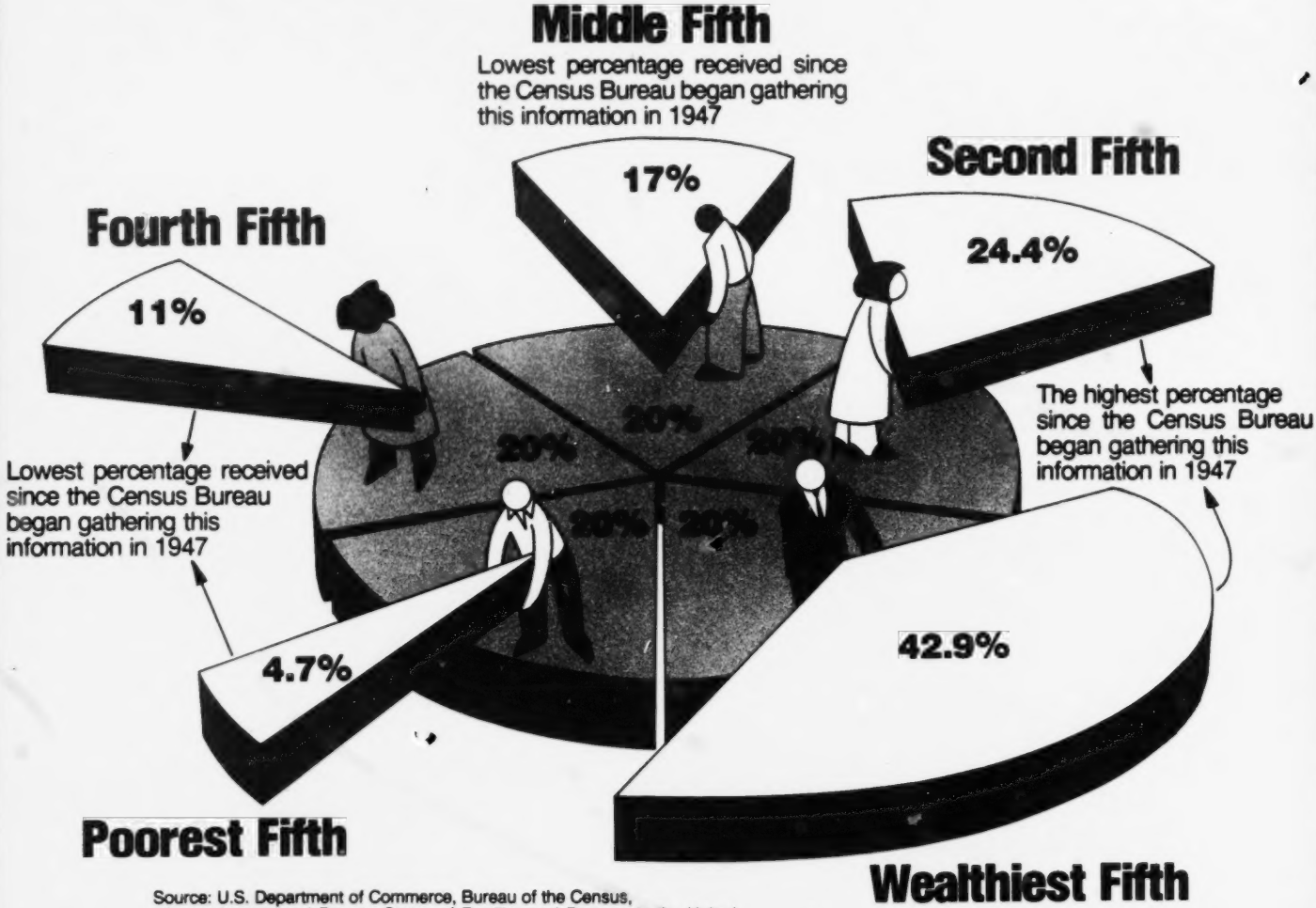
While low income issues have receded from national attention, some progress made in earlier years in reducing poverty and in tempering extremes of economic inequality has been reversed. Today, poverty is higher than in any other non-recession year in nearly two decades.

Equally important, the gap between the incomes of affluent Americans and those of low and moderate incomes is growing and has now reached its widest point since the end of World War II. Important changes in the fabric of American society seem to be taking place.

This report is being written in the hope of bringing renewed attention to these issues — and renewed interest in efforts to address them.

The Rich Get Richer, The Poor Get Poorer

Percent of National Income that each Fifth of the U.S. Population Receives



Source: U.S. Department of Commerce, Bureau of the Census, *Money, Income and Poverty Status of Families and Persons in the United States: 1984* August 27, 1985

I. GROWING INEQUALITY IN AMERICAN SOCIETY

Today in America there is a growing trend toward greater inequality of income between rich and poor. There are now wider gaps between the affluent and those of more limited means than our country has witnessed in close to 40 years. Americans of moderate incomes as well as those classified as poor have lost ground, while wealthy Americans have surged ahead.

Census data on growing inequality

New data issued by the Census Bureau in late August 1985 show that the gap between upper income and lower income American families has been growing and is now wider than at any time since the end of World War II.

- The gap between upper and lower income families is now wider than at any time since the Census Bureau began collecting these data in 1947.

- The Census data show that in 1984,* the poorest 40 percent of all families (those with incomes below $21,700) received only 15.7 percent of the national income, the smallest share since 1947.

- Families in the middle lost, as well. The 20 percent of families with incomes in the middle of the income scale received 17 percent of the national income last year, their lowest share since 1947.

- At the same time, the wealthiest 40 percent of U.S. families received 67.3 percent of the national income, their largest share since 1947.

- This trend has escalated sharply since 1980. The Census data show that the typical (or median income) family in the bottom 40 percent of the population had $470 less in income in 1984 than in 1980 (after adjusting for inflation). But the median family in the top 40 percent had $1,800 more in income than in 1980 — and the median family in the richest 10 percent of the population had $5,000 more in income than in 1980.

- If the shares of national income had been the same in 1984 as in 1980, the poorest fifth of all families would have received $8 billion more in income. The wealthiest fifth would have received $25 billion less.

The trend toward increasing inequality has been even more marked among families with children.

- A recent analysis of Census and other data by the Joint Economic Committee (JEC) of the Congress found that from 1979 to 1984, average family income for the poorest fifth of all families with children plunged 23.8 percent, after adjusting for inflation. In addition, the JEC found that the average income of the next-to-poorest fifth of families with children dropped 14 percent, while the average income of the middle fifth of these families fell 10.5 percent. Only one group of families with children came out ahead — those in the wealthiest fifth.

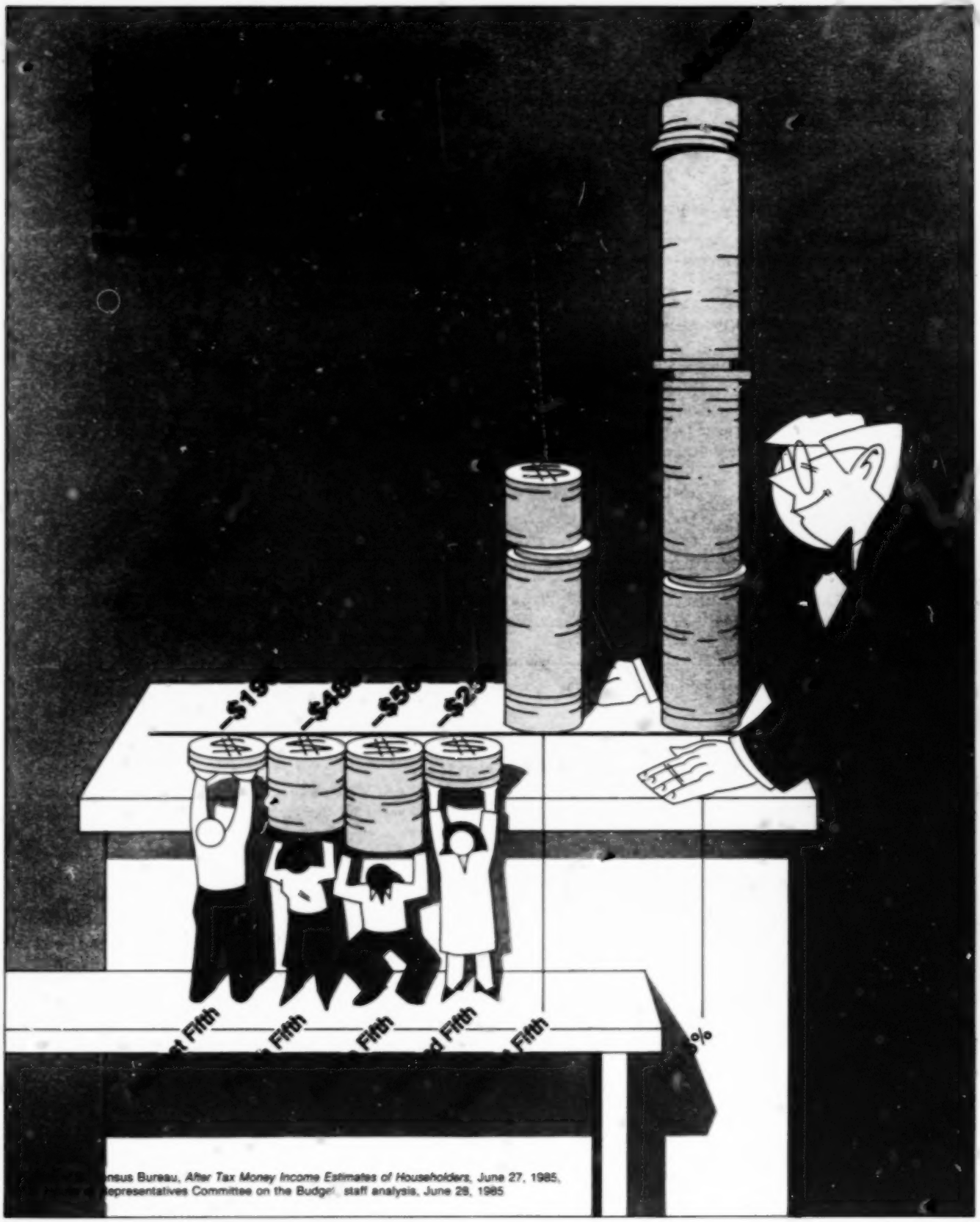
- The JEC also examined income trends from 1973 to 1984 and found that over this 11 year period, the incomes of low and moderate income families with children suffered even larger declines. Average family income for the poorest fifth of all families with children fell 34 percent over this period, after adjusting for inflation. This means that average incomes for the poorest fifth of all families with children in our society are now one-third lower (or over $3,000 a year lower) than in 1973. The next-to-poorest fifth of families with children suffered an average family income loss of 20.2 percent over this same period.

Similar trends in after-tax income

The gap between upper and lower income families is nearly as wide when after-tax income is examined.

- Census data show that all income groups except the richest fifth had less after-tax income in 1983 than in 1980.** The richest fifth of U.S. households averaged $1,480 more in after-tax income in 1983 than in 1980 (after adjusting for inflation) and households in the top 5 percent had $3,320 more in after-tax income. On the other

*1984 is the latest year for which income distribution data are available.
**1983 is the latest year for which after-tax income data are available from the Census Bureau.



nsus Bureau, *After Tax Money Income Estimates of Householders*, June 27, 1985,
epresentatives Committee on the Budget, staff analysis, June 29, 1985

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hand, households in the poorest fifth averaged $190 less in after-tax income than in 1980 and households in the next-to-the-bottom fifth averaged $480 less. Households right in the middle were also hit — households in the middle fifth averaged $560 less in after-tax income in 1983 than in 1980.

- Further evidence comes from the Urban Institute, one of the nation's most respected research institutions. Examining recent trends in income distribution, a 1984 study by the Institute (*The Reagan Record*) estimated that from 1980 to 1984, there was a transfer of $25 billion in disposable income from poor and middle income families to families in the richest fifth of the population.

- "Disparities between the incomes of poorer families and those of more affluent families grew markedly over the 1980-1984 period," the Urban Institute found. Since 1980, the Institute reported, "families at the top of the income distribution have gained substantially; those in the bottom two-fifths have actually lost all the ground they had gained [in terms of receiving their share of the national income] over the two preceding decades."

- The Urban Institute also found that black families were especially hard hit, with the typical middle class black family losing ground as well as the typical poor black family. The Institute reported that "black families fared relatively poorly over the past four years . . . their incomes declined both absolutely and relative to the income of whites."

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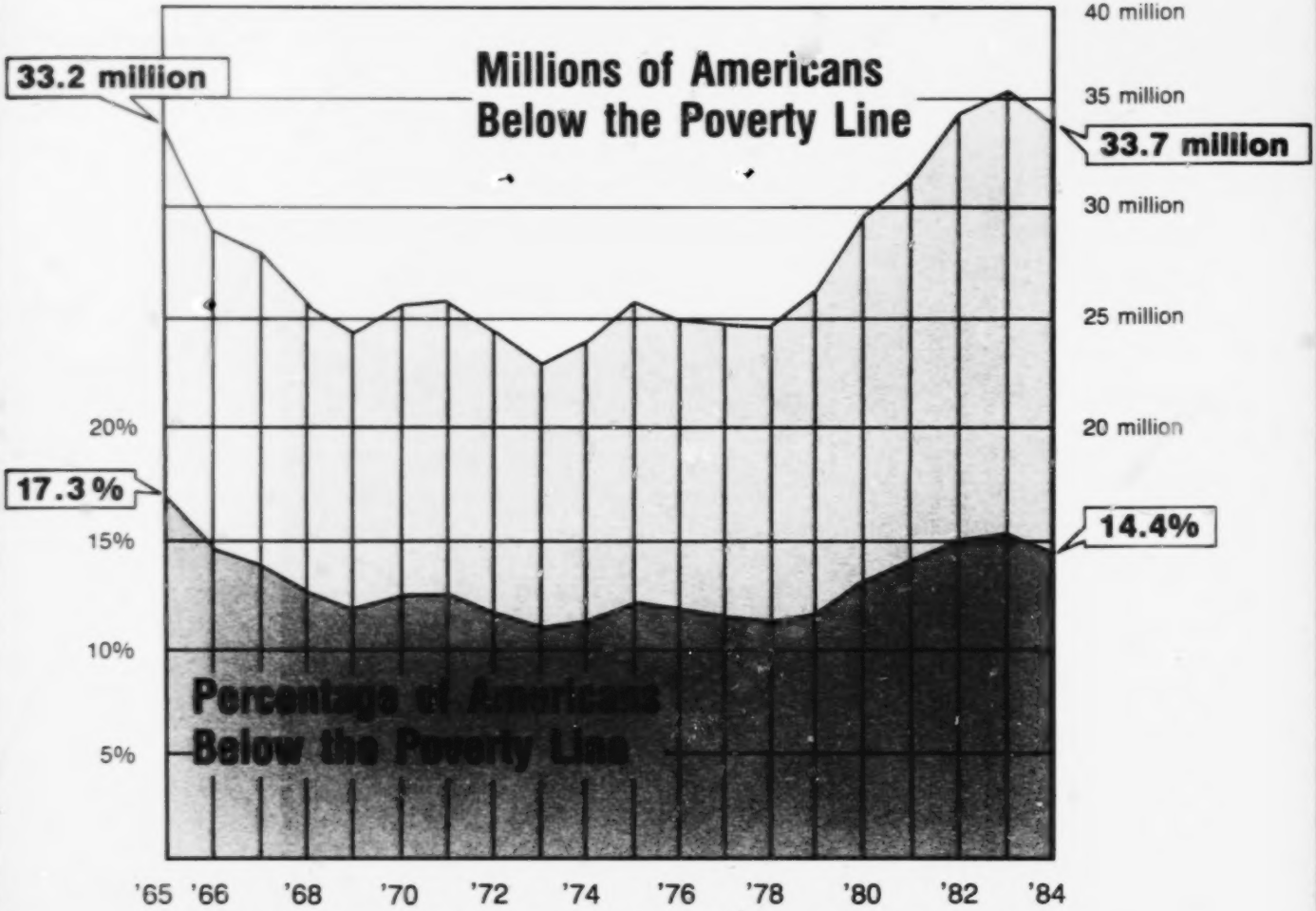
*1984 is the latest year for which income distribution data are available.
**1983 is the latest year for which after-tax income data are available from the Census Bureau.

Poverty in America



The 1984 poverty line for a family of four was $10,609 in annual income.

Source: U.S. Census Bureau: *Money, Income and Poverty Status of Families and Persons of the United States: 1984*, August 27, 1985

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II. THE RESURGENCE OF POVERTY AND THE STATUS OF LOW INCOME AMERICANS

Along with a growing trend toward inequality, we have also witnessed a resurgence of poverty in America. Poverty is far more extensive today than it has been in quite some time. The poverty rates for each of the past three years have been well above the poverty rates of the 1970s and higher than the poverty rates for any year since the mid-1960s.

- In 1984, 14.4 percent of Americans — or one in every seven — had incomes below the official poverty line ($10,609 for a family of four in 1984).*

- This is the highest poverty rate since 1966, except for the recession years of 1982 and 1983. The poverty rate is now the highest for any non-recession year in nearly two decades and higher even than during the major recession of 1975.

- There are now 33.7 million Americans below the poverty line. This is 4.4 million more poor persons than there were in 1980 and 9 million more than there were as recently as 1978.

The poverty drop in 1984 was disappointingly small

In 1984, the poverty rate dropped to 14.4 percent from 15.2 percent in 1983. Unfortunately, this modest decline in the poverty rate is not a sign that the problem is being solved.

- The one year drop in the poverty rate was largely attributable to reductions in unemployment. The unemployment rate dropped from 9.6 percent in 1983 to 7.5 percent in 1984, the largest single year drop in recent decades. Given this large reduction in unemployment, the reduction in the poverty rate to only 14.4 percent is disappointing.

- The poverty rate now appears to be substantially higher than it should be relative to the unemployment rate. In 1976 and 1977 — when the unemployment rate was at levels comparable to the unemployment level for 1984 — the poverty rate was 11.6 percent to 11.8 percent. Now, although unemployment is down to 1976-1977 levels, the poverty rate is nearly three percentage points higher than it was in those years. Had the poverty rate followed the unemployment rate back to 1976-1977 levels, six million fewer Americans would be poor today.

- Poverty rates rose steadily from 1978 to 1983, a period marked first by high inflation, then high unemployment, large budget cuts in programs for low income persons, and continuing demographic changes. The 1984 poverty figures indicate that the effects of the economic and policy changes of recent years have not been reversed much by the economic recovery.

- Moreover, little or no significant further drop in poverty is expected in 1985. Changes in the poverty rate are closely related to changes in the unemployment rate and in real weekly earnings (weekly earnings adjusted for inflation). When unemployment drops and real weekly earnings rise significantly, poverty almost always declines. The unemployment rate has stayed in the 7.0 to 7.5 percent range for all of 1985, however. In addition, real weekly earnings for the population as a whole are only slightly above their level of a year ago, and real weekly earnings for blacks and for women heading families have actually declined. This indicates there is not likely to be much of a drop in poverty in 1985.

- With the economy seemingly unable to bring unemployment below 7 percent and with the rapid economic growth of 1984 behind us, poverty rates may well be stuck at a new plateau (in the 14 percent range) for a number of years to come — a plateau that is at substantially higher levels than poverty has been in this country for nearly twenty years.

Poverty rates for minorities are especially high

Poverty rates are much higher for minorities than for other Americans. Blacks are three times as likely as whites

*1984 is the most recent year for which poverty statistics are available.

to live in poverty. Hispanics are more than twice as likely as non-Hispanic whites to live in poverty. Nevertheless, most Americans who are poor are white, non-minority persons.

- The poverty rate for blacks was 33.8 percent in 1984, meaning that one of every three blacks lived in poverty. This compares to an 11.5 percent poverty rate for whites. Nearly 9.5 million blacks were poor last year.

- The number of poor blacks, like the total number of all poor persons, has increased substantially in the last six years. In 1984 there were nearly 2 million more blacks in poverty than in 1978, before the increase in poverty began.

- Among Hispanics, more than one of every four (28.4 percent) lived in poverty in 1984. This translated into 4.8 million Hispanics with incomes below the poverty line.

- While poverty rates for most groups went down in 1984, the poverty rate for Hispanics did not decline. Between 1983 and 1984, the Hispanic poverty rate edged upward from 28.1 percent to 28.4 percent (although this increase is too small to be considered statistically significant). More important, there appears to be a longer-term trend in which the Hispanic poverty rate is moving closer to the black poverty rate, which has long been the highest poverty rate for any racial or ethnic group.

- Among Hispanics, the poverty rate is highest for Puerto Rican-Americans (43.2 percent). The poverty rate for Mexican-Americans is also high (28.3 percent).

- Nevertheless, while the poverty rate is lower for non-minorities than for minorities, the great bulk of those who are poor are white. Of the 33.7 million Americans poor in 1984, 23 million — or more than two-thirds — were white.*

Soaring poverty rates among children

Poverty is a particular problem among children, especially young children. Poverty rates among children have soared in recent years. Children are now far more likely to be poor than adults are.

- Fifteen years ago, the child poverty rate stood at 13.8 percent. Today, the child poverty rate has climbed to 21.3 percent. Over 13.4 million children now are poor.

- No other segment of U.S. society has experienced such a striking increase in poverty. In fact, the poverty rate for children is now nearly double the poverty rate for adults.

- For the most vulnerable children — those under the age of six — the poverty rate is even higher. Almost one-quarter (24 percent) of all children under six live in poverty.

For minority children, the situation is even more grim.

- Black and Hispanic children have poverty rates that are substantially higher than the poverty rates for other children. Among black children, nearly half (46.5 percent) are poor. Among Hispanic children, nearly two of every five (39 percent) are poor.

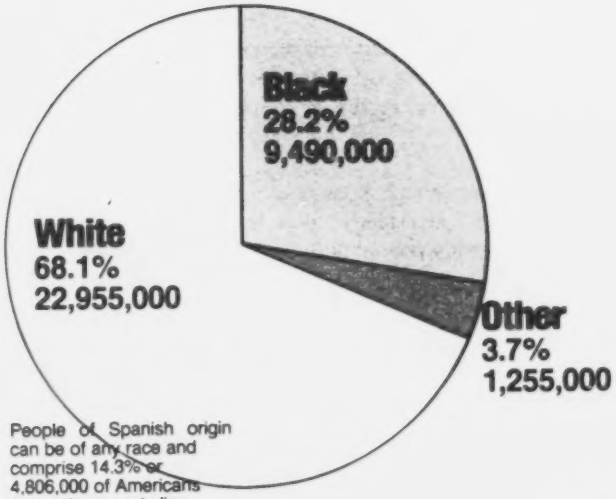
- The highest poverty rates, however, are those for children who are black or Hispanic *and* who are also very young. In 1984, *more than half* (51.1 percent) of all black children under six lived in poverty. This is the highest rate of poverty the Census Bureau has ever recorded for young black children since Census began collecting these data in 1970.

- Poverty rates have also increased rapidly for young Hispanic children. In 1984, 40.5 percent of all Hispanic

*Included in the 23 million white Americans who are poor are those poor Hispanics who are white. Persons of Spanish origin may be of any race.

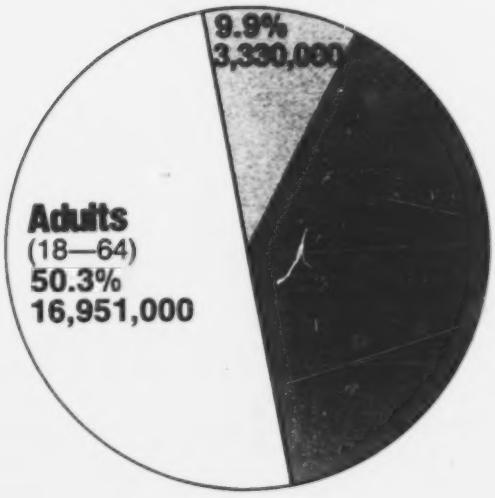
Poverty Profile USA

Race



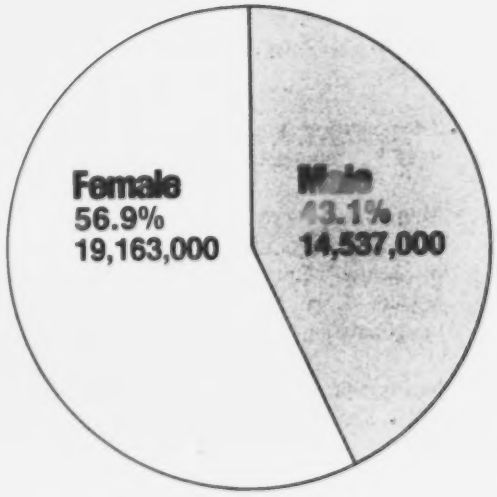
People of Spanish origin can be of any race and comprise 14.3% or 4,806,000 of Americans below the poverty line.

Age



Families

Sex



Source: U.S. Census Bureau; *Money, Income and Poverty Status of Families and Persons of the United States 1984*. August 27,1985

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children under six lived in poverty, up sharply from 29.2 percent just five years earlier. This means that an additional 11.3 percent of young Hispanic children fell into poverty from 1979 to 1984, representing one of the most rapid increases in poverty for any racial, ethnic, or age group in America during this period.

Poverty most serious for children in persistently poor families

Of those children who are poor, many are poor for a few years and then climb out of poverty when their families' economic status improves. But some children are poor for much longer periods. Poverty is most serious for these children.

- A report by the Congressional Research Service (CRS) found that two-thirds of the children who are poor at any time during a 15-year period remain in poverty for no more than four years. The characteristics of these children, in terms of race and the type of family in which they live, are similar to those of the general U.S. population.

- However, CRS also found that one out of every seven children who are poor at some time over the 15-year period remains in poverty for at least 10 of the 15 years. These "persistently" poor children spend two-thirds or more of their childhood in poverty. Ninety percent of persistently poor children are black, most do not have a father in the home and live in rural areas and in the South.

- The CRS report also found large differences between black and white children in the dynamics of poverty. Nearly half (45 percent) of black children are born poor, and the average black child can expect to spend more than 5 years of his or her childhood in poverty. By comparison, only 15 percent of white children are born poor, and the average white child can expect to spend less than 10 months in poverty during his or her childhood.

- While CRS found poverty among white children more likely to be short-term and caused by changes in the composition of the family (such as divorce or separation) or changes in family earnings (such as due to a layoff), the report concluded that poverty among black children was of longer average duration and not as often related to changes in family composition or earnings.

Significant numbers of elderly persons remain poor

The nation has made great progress in reducing elderly poverty — from 35.2 percent in 1959 and 24.5 percent in 1970 to 12.4 percent in 1984. This progress has been due in large part to increases in Social Security benefits and coverage and to regular cost-of-living adjustments in Social Security, as well as to the Supplemental Security Income (SSI) program for the aged and disabled poor, which was instituted in 1974 and is also indexed to keep up with inflation. Nevertheless, a significant number of elderly persons still live in poverty and many more live not far above the poverty level.

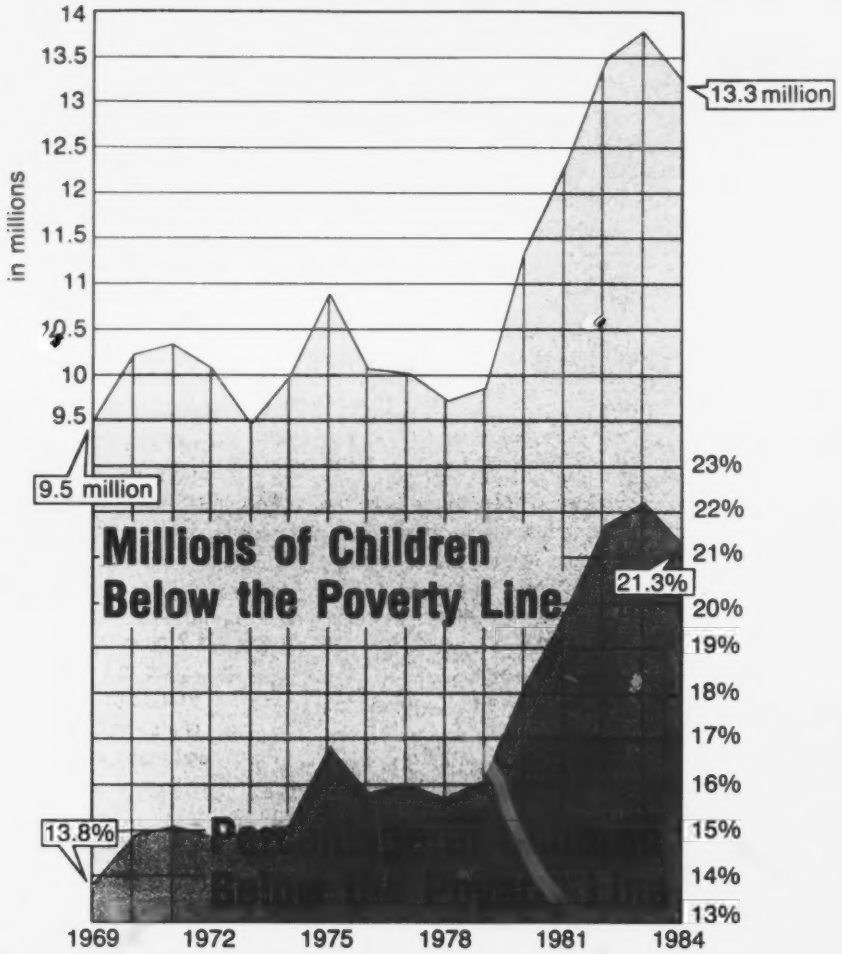
- The poverty line in 1984 was $4,979 for an elderly person living alone and $6,282 for an elderly couple. There were 3.3 million elderly Americans living below these poverty lines in 1984.

- Many more elderly persons live just above the poverty line. While the proportion of the elderly who are poor (12.4 percent) is slightly lower than the overall U.S. poverty rate (14.4 percent), the proportion of elderly who live below 125 percent of the poverty line slightly exceeds the percentage of the general population in this income bracket — and the proportion of elderly below twice the poverty line significantly exceeds the percentage for the population as a whole.

- Nearly half (46.2 percent) of elderly persons live below twice the poverty line. This means they have income below $9,958 for an elderly person living alone and below $12,564 for an elderly couple.

- Nearly three quarters (71.2 percent) of the elderly poor are women. Not only are there more elderly women than elderly men (because women tend to live longer), but the poverty rate among elderly women is nearly twice the poverty rate among elderly men.

Poverty Among Children



Source: U.S. Department of Commerce, Bureau of the Census, *Money, Income and Poverty Status of Families and Persons of the United States: 1984*, August 27, 1985.

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- Two-thirds (67.9 percent) of poor elderly women are widows and one out of every five elderly widows lives in poverty.

- Over half of the elderly poor rely solely on payments from the Social Security and Supplemental Security Income programs. These elderly persons have little hope of ever raising their incomes above the poverty level.

- Elderly members of minority groups are more likely than other elderly persons to be poor. The poverty rate among the black elderly is 31.7 percent — three times as high as the poverty rate among elderly who are white (which is 10.7 percent).

- For Hispanic elderly persons, the poverty rate (21.5 percent) is twice as high as among the white elderly.

- Among elderly persons who are members of minority groups and are also women living alone, poverty rates are especially high. Over half (56.8 percent) of all elderly black women who live alone are poor.

- Poverty rates are also higher among elderly persons of more advanced age. Poverty can be particularly serious among this group — not only are their incomes low and earnings opportunities scarce, but they also are more likely to have exhausted the assets they may have accumulated during their younger years. In general, the older an elderly person is, the more likely he or she is to be poor.

Female-headed families and poverty

Poverty is especially pervasive among female-headed families. Persons living in families headed by a single woman are more than three times as likely to be poor as families headed by a married couple or a single man.

- Over one-third (34 percent) of all persons living in female-headed families are poor, compared to 9.3 percent of persons in other families.

- Persons in families headed by a minority woman are even more likely to be poor. Over half (52.9 percent) of persons in families headed by a single black woman are poor. An even larger percentage (54.3 percent) of persons in families headed by a Hispanic woman are poor.

- The poverty rates are especially stunning for minority children who live in female headed-households. Nearly two-thirds (66.2 percent) of all black children living in female-headed families are poor. Among Hispanics, 71.0 percent of all children in female-headed families are poor, giving these children the dubious distinction of having the highest poverty rate of any group in the U.S. population.

- Currently, almost half of all persons in poverty (48.8 percent) live in families headed by single women — and over half of all poor children live in female-headed families. Over the last 25 years, the proportion of the poor living in female-headed families has increased dramatically. In 1959, just 26.3 percent of all poor persons lived in families headed by a woman.

Increases in the number of female-headed households are not the cause of the recent sharp increases in poverty, however.

- Increases in the number of female-headed households account for little of the large increases in poverty since the late 1970s. The proportion of poor families headed by a single woman is actually *lower* now than it was in the late 1970s. In recent Congressional testimony, Mary Jo Bane, one of the nation's leading poverty researchers (and now executive deputy commissioner of the New York State Department of Social Services), reported that "family-composition changes [*i.e.*, increases in the number of female-headed households] contributed almost nothing to the sharp increase in poverty that occurred between 1979 and 1983." In addition, Census data show that the bulk of the persons added to poverty since 1979 are persons who do *not* live in female-headed families.

- The major increases in poverty in recent years reflect, in part, the fact that poverty has again become more pervasive among other segments of the population. Poverty has grown even faster among other population groups in recent years than among female-headed households.

- It should also be noted that although female-headed families are more likely than other family types to live in poverty, neither divorce nor births to unmarried mothers are the primary causes of poverty. Other important new research by Bane shows that many poor female-headed families, especially poor families headed by a black single mother, were poor *before* divorce, separation, or the birth of a child to an unmarried mother (two-thirds of poor black female households heads were poor before the family breakup or the birth of an out-of-wedlock child). Bane's work shows that many persons in female-headed households who live in poverty would be poor even if they lived in intact families.

- Bane has also found that if the proportion of black families headed by a woman had been as low in 1979 as it was in 1960, the black poverty rate would have been reduced only from 31 percent to 24 percent that year — and would still have been more than double the white poverty rate.

- Finally, work by Bane and David Ellwood of Harvard University, which was completed last year and is widely regarded as the most important research yet conducted on welfare and family structure, found that the availability of welfare does not lead to increased numbers of out-of-wedlock births and has only a mild impact on divorce and separation rates (although welfare may encourage single mothers to live alone with their children rather than with relatives). Bane and Ellwood found that states with higher welfare benefit levels do not have higher rates of illegitimacy than states with low benefit levels.

Sharp increases in the working poor population

If growth in the number of female-headed families has played a smaller role than is generally understood in spurring increases in poverty since the late 1970s, another factor — namely large increases in the ranks of the working poor — has had a larger role than is widely realized. The numbers of persons who work but are still unable to escape poverty has grown dramatically in recent years.

- The number of prime working-age individuals (those persons aged 22 to 64) who work but are still poor has soared, increasing by more than 60 percent since 1978.

- Of all poor persons who head families, nearly half (49.2 percent) now work at some point during the year.

- Moreover, the number of persons who work full-time year-round and are still poor now stands at over 2 million. This number has increased by two-thirds since 1978.

- In 1983, there were 2.5 million children living in families where a worker was employed full-time year-round but the family remained poor, according to the Congressional Research Service.

- In fact, most of the poor family heads whom the public thinks should work actually do work during the year. Research by Sheldon Danziger and Peter Gottschalk of the Institute for Research on Poverty at the University of Wisconsin indicates that most family heads who do *not* work during the year are elderly, disabled, students, or single mothers of small children. (Danziger and Gottschalk found that 53 percent of all heads of households in poverty are over 65, disabled, full-time students, or single mothers with children under 6.)

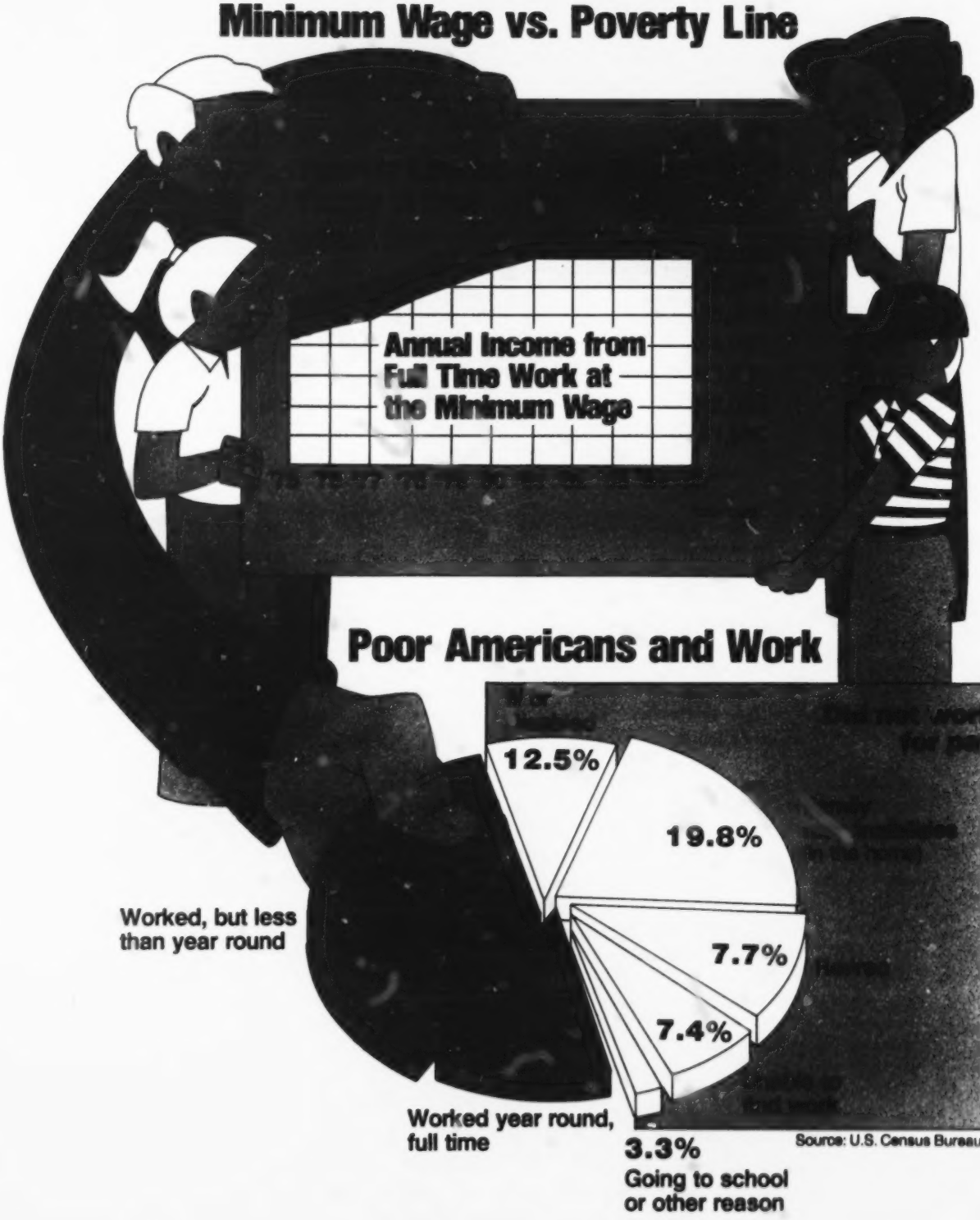
This raises an important question. Why are there so many more persons than in the past who are working but are still poor? One major factor has been that a sharp drop in the purchasing power of the minimum wage has pushed many working families into poverty.

- The minimum wage has not been adjusted in nearly five years — since January 1981 — while inflation has raised consumer prices nearly 25 percent during this period. In other words, the minimum wage now provides a standard of living nearly 25 percent lower than it did in January 1981.

- Families with only one wage earner, working at the minimum wage, are now almost certain to be poor. In 1978, a family of four with one person working full-time, year-round at the minimum wage fell $1,150 below the poverty line. In 1985, such a family falls more than $4,000 below the projected poverty line. In 1978, a family of three with a full-time minimum wage earner was above the poverty line, today, this family is $1,600 below

The Working Poor

Minimum Wage vs. Poverty Line



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the poverty line. And in 1978, a family of two (a parent and a child) with a full-time minimum wage earner was $1,300 above the poverty line. Today, this family, too, falls into poverty.

- Even a family of four with two wage earners — one working full-time at the minimum wage and one working half-time at the minimum wage — is now poor.

- Large numbers of other jobs with wages pegged slightly above the minimum wage now also fail to provide enough income to escape poverty.

This trend toward increasing numbers of families that work but are still poor is likely to intensify in coming years.

- No future adjustments in the minimum wage have been enacted — and it is extremely unlikely that any adjustment (which requires passage of legislation by Congress and approval by the President) will be made for at least several more years. As a result, the minimum wage will fall further below the poverty line each year, and the number of families who work but still fall into poverty is expected to increase further.

- This is a particular problem for female-headed families. Single-parent families are usually limited to one earner, and women occupy a disproportionate share of minimum wage and other low-paying jobs.

- The fact that single-parent, one-earner families are expected to continue their rapid growth in the years ahead — combined with the prospect of further erosion of minimum age levels compared to the cost-of-living in coming years — suggests that there are likely to be further large increases in the number of women who try to work and raise families at the same time, but who remain poor.

The poor are getting poorer

Not only has the number of persons in poverty increased sharply in recent years, but those who are poor are growing poorer. The proportion of the poverty population falling into the "poorest of the poor" category is growing, and the typical poor family falls further below the poverty line than it has in the past.

- The proportion of the poor who fall *below 50 percent* of the poverty line has been increasing in recent years. These are the poorest of the poor.

- In 1984, 12.8 million persons — or nearly four of every ten poor persons (37.9 percent) — had an income below half of the poverty line. In 1980, one-third of the poor fell below half the poverty line, and in 1975, less than 30 percent of the poor fell below this level.*

- Likewise, the proportion of families with real incomes (incomes adjusted for inflation) below $5,000 a year — a level far below the poverty line — has increased dramatically, rising 39 percent just since 1978.*

- Even more important, the "poverty gap" has widened. The poverty gap is the total amount of dollars by which the incomes of all poor families and individuals fall below the poverty line. In many ways, it is the best overall measure of poverty status, because it reflects changes both in the number of persons who are poor and in how poor they are.

- Census data show that the poverty gap exceeded $45 billion in 1984 — and was higher than the poverty gap recorded for any year since 1980, except for 1982 and 1983. (These poverty gap figures are adjusted for inflation; poverty gap figures are not available for 1961-1964 or 1966.)

- Perhaps of the greatest significance, the typical (or median) poor family fell $3,666 below the poverty line in 1984 — further below poverty than for any other year for which the poverty gap has been measured, with the

*The numbers of persons with incomes below 50 percent of the poverty line and the numbers of persons with incomes less than $5,000 include some persons with substantial amounts of financial resources who, due to farm or business losses, or other reasons, show very low incomes.

sole exception of 1983. (Figures on the amount by which the typical poor family's income falls below the poverty line are available, on an inflation-adjusted basis, for all years back to 1959 except for 1961-1964 and 1966.)

Symptoms of poverty: hunger, homelessness, and infant mortality

Accompanying these increases in the extent and the depth of poverty of recent years have been reports of growing hunger and homelessness throughout the country. In addition, progress in reducing infant mortality, which remains higher in the U.S. than in most other industrialized nations, now appears to be faltering.

- A number of studies have documented the increased demand for emergency food assistance in recent years. In 1983, the Center on Budget and Policy Priorities surveyed 181 emergency food providers and found that between February 1982 and February 1983 the number of people coming to these providers for soup kitchen meals or emergency food baskets increased by 50 percent or more for more than half of the providers. In 1984, the Food Research and Action Center reported that the nationwide demand for emergency food supplies had increased by 20 percent between 1983 and 1984. In 1985, the U.S. Conference of Mayors surveyed 21 cities and reported that in 70 percent of the cities, demand for emergency food supplies exceeds the amount available.

- The number of homeless persons has also increased considerably. A survey of emergency shelter needs in 83 cities by the U.S. Conference of Mayors found that the number of homeless persons served by shelters increased 71 percent from 1982 to 1983. A survey by the state of New York found that on an average night in 1983, 20,210 persons spent the night at emergency shelters or publicly-purchased hotel rooms in the state.

- Another indicator of living conditions in low-income communities is the infant mortality rate (the proportion of all infants born who die before their first birthday). In spite of new developments in medical technology, the infant mortality rate in the U.S. is higher than the corresponding rate in 15 other countries, including Singapore and nearly all other western, industrialized nations.

- The infant mortality rate for U.S. infants who are poor is even higher. Statistics collected on newborns do not include the income of the child's parents, so infant mortality among the poor cannot be measured directly. However, the race of the child is noted, and since the poverty rate among blacks is much higher than among whites, race is often used as a proxy for income status. Among blacks in this country, the infant mortality rate is nearly twice what it is for whites. Blacks in the U.S. had the same infant mortality rate in 1980 as infants in Cuba, and a higher infant mortality rate than in 25 other countries.

- In recent months, leading medical professionals have voiced increasing concern that progress in reducing infant mortality in the U.S. now seems to be faltering. From 1982 to 1983, the preliminary infant mortality rate dropped by only 2.7 percent and from 1983 to 1984, it dropped just 2.8 percent. Not since 1964 and 1965 has infant mortality declined so little for two successive years. For one group of infants, infants aged one month to one year, the death rate actually rose in 1983.

- In addition, infant mortality rates appear to have risen in some poor rural areas. The combined infant mortality rate for the 85 poorest rural counties rose significantly from 1981 to 1983, according to a recent study by Public Voice for Food and Health Policy, a non-profit organization in Washington, D.C.

III. THE VULNERABILITY OF AMERICAN FAMILIES TO POVERTY AND ECONOMIC DISLOCATION

Many Americans who are not low income regard the data on poverty conditions as not affecting them. A common belief is that the poor are a distinct group who live in poverty much of their lives and are part of a "culture of poverty" that extends from generation to generation.

This belief is largely incorrect. Thanks to the pathbreaking Panel Study of Income Dynamics which tracked families' incomes over more than a decade, there is better information than ever before on families' income patterns over time.

The data show that most families who are poor move in and out of poverty within a few years and are not poor for an extended stretch of time. But the data also show that over a period such as ten years, large numbers of Americans — a quarter of the entire population — are poor at least some of the time.

These data demonstrate that millions of moderate and middle income Americans who are not poor today are likely to be poor at some point in the next decade. The vulnerability of moderate and middle income families to economic dislocation and poverty is far greater than is commonly realized.

- The data from the Panel Study of Income Dynamics, conducted at the University of Michigan, have been analyzed by Greg J. Duncan and his colleagues in *Years of Poverty, Years of Plenty*. The data show that most families who are poor actually move in and out of poverty, as they gain or lose jobs (or better-paying jobs), as marriages dissolve, infants are born, etc. This means that most of those who are poor in a given year have *not* been poor (and will not remain poor) for an extended stretch of time.

- In fact, Duncan found that about one-third of the individuals who are poor in any given year climbed out of poverty by the following year. He also found that the majority of the poor were not poor on a "long term" basis. Only about one-third of those poor in any year had been poor for at least eight of the preceding ten years.

- But Duncan's findings signify something else, as well — that over a number of years, *a very large number of Americans will be poor for at least some period of time*. Duncan found that over the ten-year period from 1969-1978, *one-quarter of the entire U.S. population had lived in poverty for at least one year*.

- During the 1980s, a period when poverty rates are higher than they were in the 1970s, the proportion of the population that will be poor at some point should be even greater.

- Duncan also found that while those who are long-term poor (poor at least eight out of ten years) are disproportionately black or female-headed households, those who are poor for shorter periods of time are not much different from the general population — and are predominantly white and in other types of families.

- These findings indicate that millions of persons not currently in poverty are nevertheless vulnerable — and are likely to be poor at some point in the next decade.

The vulnerability of dislocated workers

A prime example of the vulnerability of many American families to major income loss is provided by a recent federal government study of workers permanently displaced from their jobs over the past five years. Several years later, most of these workers are still either unemployed or working at lower-paying jobs.

- The Department of Labor conducted a special study of 5.1 million workers whose jobs were abolished between January 1979 and January 1984.

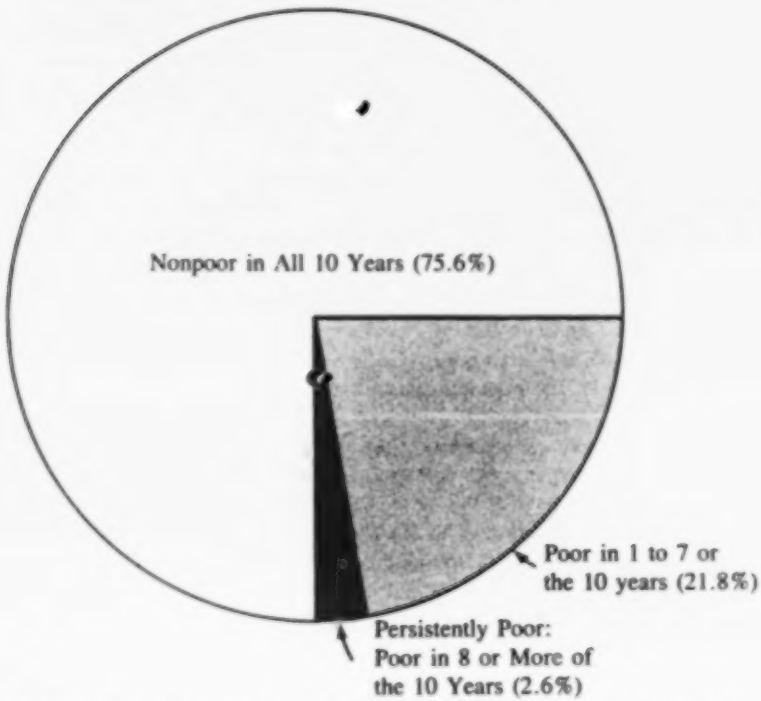
- The study found that in January 1984, 40 percent were either still unemployed or were out of the labor force.

- Of the remainder, about half were employed either part-time or at jobs with lower weekly earnings.

- The large majority of these workers thus suffered substantial income losses for extended periods of time after their jobs were abolished.

- The experience of these 5.1 million workers is likely to be repeated — and to affect some millions of other

Proportion of U.S. Population Poor at Any Time in Ten-Year Period



Source: Greg J. Duncan, *Years of Poverty, Years of Plenty: The Changing Economic Fortunes of American Workers and Families*, Institute for Social Research, University of Michigan, 1984.

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workers — in coming years. In the most recent recession, to a greater extent than in previous recessions, many workers who were laid off were never rehired by their employers. Even during economic recovery, major components of the manufacturing sector have continued to decline. With intense foreign competition, an overvalued dollar, record trade imbalances, automation, and a continued shift from a manufacturing-oriented economy to more of a service-oriented economy, plant closings and job losses will continue in many areas. Families that today have a small margin of economic comfort will in many cases find themselves economically vulnerable at some future point — and cast into low income status for at least a period of time.

The problem of persistently high unemployment

The vulnerability of these families to unemployment, and subsequent income loss, has increased because unemployment rates are now considerably higher than in the past.

- The current economic recovery has failed to bring unemployment below 7.0 percent, a level that in the past usually indicated a recessionary period rather than a recovery period. In the 35 years from the end of World War II until 1980, there were only seven months, other than during the 1974-1975 recession, when unemployment exceeded the 7.0 percent level.

- Moreover, the unemployment rate has now been at or above 7 percent for five and one-half consecutive years. This is unprecedented for any period since the Depression.

- In recent years, each recession has pushed unemployment to higher levels (to 9 percent in the 1975 recession, to nearly 11 percent in the 1982 recession), and each subsequent recovery has left unemployment higher than in previous recovery periods. This raises major concerns about the impact of the next recession, whenever it occurs.

Unemployment programs no longer meet the needs of most unemployed workers

The vulnerability of many families who are not currently poor is increased by recent changes in the income support system for those who lose their jobs. The centerpiece of this support system is supposed to be unemployment insurance. But the unemployment insurance program has contracted very sharply in recent years.

Once a program to assist most of the unemployed, unemployment insurance now assists only a small fraction of jobless workers. As a result, a job loss may entail a greater risk of substantial income loss, as well as of a brush with poverty, in the future.

- Throughout most of the 1970s, a majority of the unemployed received unemployment benefits each month.

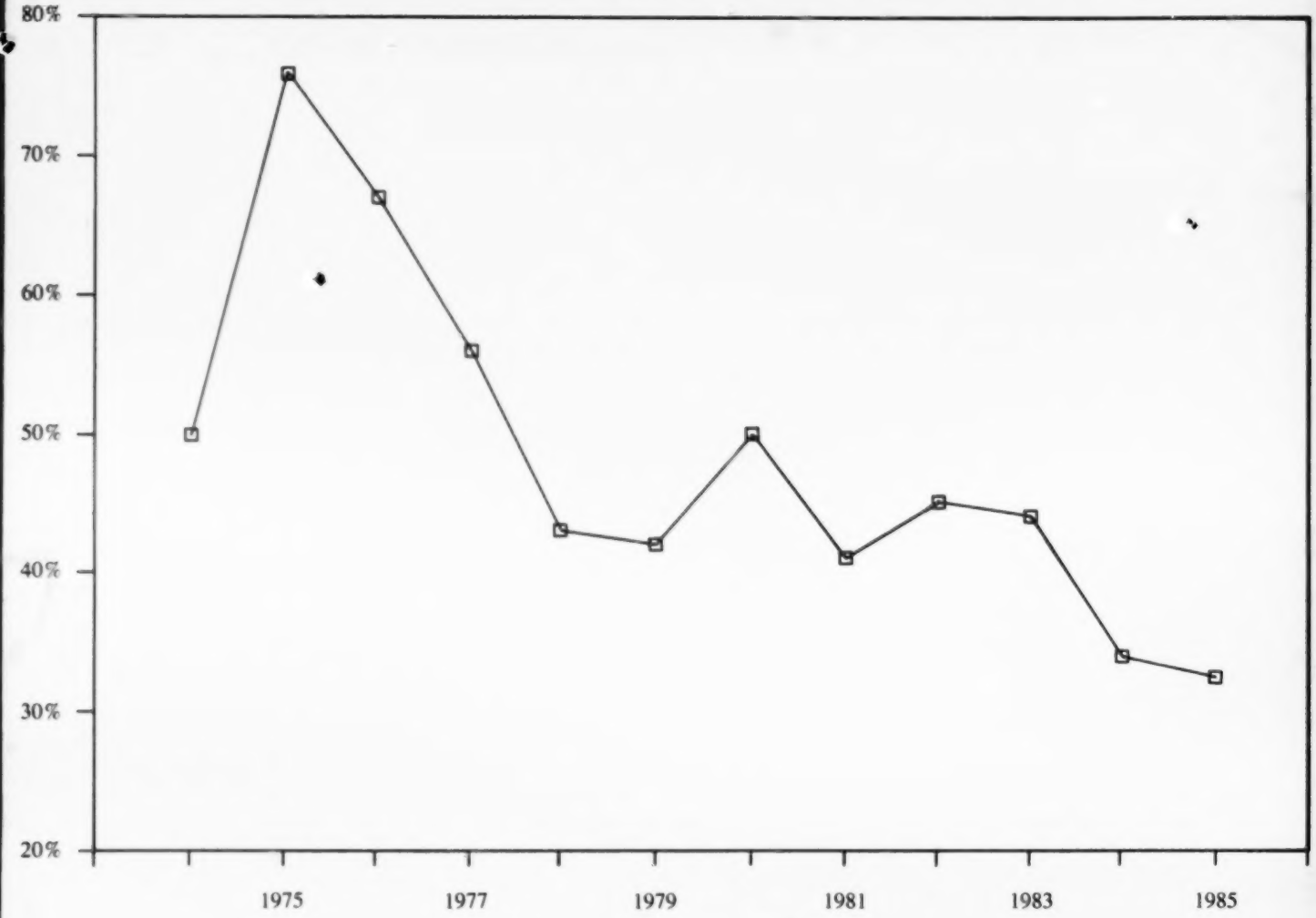
- In the 1980s, however, the program has contracted severely, as a result both of an extraordinarily long period of continued high unemployment, and of budget cuts in the program at both federal and state levels.

- By October 1985, the percentage of unemployed receiving unemployment benefits had plummeted to just 25.8 percent, the lowest level ever recorded in the program's history. Nearly three of every four jobless workers are now without benefits, even without counting discouraged workers. (Discouraged workers are those who have given up looking for a job and are not counted as officially unemployed; if they are included, the percentage of jobless workers getting benefits falls closer to 20 percent.)

- These changes in unemployment benefit coverage have major implications for workers in the years ahead. In Duncan's study of family income patterns over a ten year period, he found that 40 percent of prime-age male household heads were unemployed at least once during the ten years. He also found that even before the shrinkage in unemployment insurance in the 1980s, unemployment benefits made up only 25 percent of aggregate earnings lost through unemployment.

- Adding to the problems of unemployed workers, the number of states that fail to provide cash welfare benefits to unemployed families where both parents are present (no matter how impoverished the family may be) has *increased* in recent years. Half the states (25) now automatically deny assistance to two-parent families. In addi-

Percentage of the Unemployed Receiving Unemployment Benefits



Note: Figure for 1985 represents the average monthly percentage of unemployed persons receiving benefits for the first 10 months of 1985. However, the percentage receiving benefits has dropped significantly since the early months of 1985 and reached an all-time record monthly low of 25.8% in October 1985.

Sources: U.S. Department of Labor, Bureau of Labor Statistics and U.S. Department of Labor, Employment and Training Administration.

tion, even in the states that do provide welfare benefits to two-parent families, the family becomes ineligible if the father takes a part-time job of more than 99 hours a month.

- The result is that somewhat less of a safety net is likely to be available for those who lose their jobs or otherwise suffer major income loss in the future.

An accident or major illness can also plunge families into poverty

An accident or a major illness can deprive a family of a major portion of its income and at the same time produce very high medical expenses. The result can be a drop from moderate income status into poverty.

- Medical costs have risen sharply in recent years, far faster than the typical working family's income. In the five year period ending in October 1985, the consumer price index for medical care items increased by 50 percent.

- At the same time, the number of Americans without health insurance has grown significantly. Many unemployed or laid-off workers lose their health insurance when they lose their jobs. In addition, some low wage and part-time workers also lack health insurance, as do many who are out of the work force. Census data indicate that approximately 35 million Americans now lack any health insurance.

- This lack of health insurance makes millions of persons not currently in poverty vulnerable to having much of their incomes and assets consumed by an accident or chronic illness.

IV. THE IMPACTS OF FEDERAL BUDGET REDUCTIONS IN THE 1980s

Since 1980, there have been major reductions in a number of domestic programs. These reductions have disproportionately affected those with low or moderate incomes and have contributed to the rise in poverty.

Cuts deepest in programs for low and moderate income persons

Programs targeted to low income families and individuals comprise about one-tenth of the federal budget. Congressional Budget Office (CBO) analyses show, however, that these programs bore nearly one-third of the budget cuts enacted in 1981 to 1983, when the bulk of the reductions were made. Few, if any, other parts of the federal budget were cut so sharply.

A number of the most critical programs bore some of the stiffest reductions.

Aid to Families with Dependent Children

- Some of the most severe cuts came in the Aid to Families with Dependent Children program (AFDC), the nation's basic public assistance program for poor single-parent families with children. In a recent study, the U.S. General Accounting Office (GAO) reported that the budget cuts terminated 440,000 low income working families (most of them female-headed) from the AFDC program. Several hundred thousand additional low income working families remained on the AFDC program but had their benefits reduced.

- The families affected had low incomes. In the areas studied that had relatively low AFDC benefits, the GAO found that 80 percent of the families terminated from AFDC were still below the poverty line one and a half to two years after being cut from the program.

- The GAO also found that these families experienced major income losses. Although a number of these families tried to make up for the loss of benefits by working harder and increasing their earnings, the increased earnings were overwhelmed by the decreases in AFDC and food stamps (food stamp benefits were also reduced). The overall income of the families terminated from AFDC fell an average of $124 to $216 a month — or $1,500 to $2,600 a year. This represents a very large loss for families with low incomes.

- In addition to the loss in income, most of these families also lost Medicaid coverage for themselves and their children, because eligibility for Medicaid coverage is generally linked to eligibility for AFDC. Several hundred thousand low income children appear to have lost Medicaid coverage when their families were dropped from the AFDC program.

- The loss of Medicaid coverage had its effects. When the GAO studied families terminated from AFDC in five metropolitan areas, the GAO found substantial numbers of these families were without any health care coverage. In the states providing low AFDC benefits (and having the lowest eligibility limits for AFDC), the GAO found that half of the families who lost AFDC had no health insurance when GAO interviewed them one and a half to two years later.

- Between 14 percent and 24 percent of the families terminated from AFDC whom GAO interviewed either had not sought medical treatment when it was needed, or had been refused treatment when they did seek it, due to lack of money or insurance. In addition, between 30 percent and 48 percent had either not sought or been refused treatment for a dental problem, after being dropped from AFDC.

- The losses of AFDC and food stamp benefits also took their toll. In four of the five metropolitan areas GAO examined, over half of the families terminated from AFDC had run out of food at least once and had no money to buy more.

- Between 32 percent and 44 percent of these families had also had gas, phone, or electricity service shut off due to non-payment of a bill, after being terminated.

- In addition to the reductions aimed at working families, a number of other reductions were made in the AFDC program as well. For example, the 1981 budget-cutting legislation prohibited the provision of AFDC benefits

during the first five months of pregnancy to a poor woman pregnant with her first child, despite medical knowledge that the early period of pregnancy is of critical importance to healthy birth outcomes.

Housing Assistance

- As part of the budget cuts in housing programs, rents have been raised for all low and moderate income families and elderly persons living in public or subsidized housing. Prior to the 1981 budget reductions, poor families or individuals in public or subsidized housing paid no more than 25 percent of their income for rent. Now the rents have been raised and will reach 30 percent of income in 1986.

- This amounts to $2.5 billion in additional rental payments from these families and individuals over a five-year period. By 1986, the additional rent charge will average $500 a year per household.

- In addition to the rent increases, severe reductions were also made in federal support for construction and rehabilitation of low income housing units. Construction and rehabilitation of low-rent housing helps to offset the large loss of low income housing that occurs each year due to condominium conversions, rent increases, abandonment and decay. Since 1981, federal support for activities to help replenish the shrinking stock of low-rent housing has been cut by two-thirds.

- The Urban Institute has estimated that about 300,000 more families are now living in substandard housing than would be the case if these cutbacks had not been made.

Food Stamps

- Significant reductions were also made in the food stamp program. Program cuts in 1981 and 1982 resulted in reductions of $1 to $2 billion a year, according to Congressional Budget Office estimates.

- While most households are still able to receive food stamps, benefit levels for most of the 20 million persons in the program (the majority of whom are children or elderly or disabled individuals) are now lower than they would have been in the absence of the cuts. Over two-thirds of the savings in the food stamp program have come from reducing benefits for households below the poverty line.

Employment and Training Programs

- Overall funding for employment and training programs, designed to help persons with barriers to employment gain skills or work experience and improve their prospects of finding regular jobs, was reduced very substantially. Annual funding for these programs stood at more than $9 billion when the Reagan Administration took office. Today, it comes to less than $4 billion.

- The public service jobs program, which had provided employment opportunities to 500,000 persons a year, was abolished. Virtually all persons served by this program had been low and moderate income, half were from minority backgrounds, and half were women.

- Job training programs were also slashed. Funding for these programs is down about 40 percent below 1981 levels (after adjustment for inflation), according to Congressional Budget Office and Urban Institute estimates. Among the programs that have been cut are the Job Corps program (a program which Labor Department studies have found to be cost-effective in improving employment and earnings prospects and reducing crime among low income unemployed youth) and the Work Incentive program (which provides job training and related assistance to AFDC mothers to help them get off federal assistance and into the job market).

Health Services

- Another important program that was cut was the community health centers program, which supports health clinics in "medically underserved" areas (primarily poor rural areas and some inner-city areas in which there is a shortage of health services). The community health centers program is widely regarded as one of the government's most effective health services programs. Medical research and evaluations have credited the program with im-

proving the health status of low income communities and producing a reduction both in the need for persons to be hospitalized and in Medicaid costs.

- The Children's Defense Fund has estimated that following the 1981 budget cuts in the community health centers program over 200 centers had to cut back operations and that 725,000 persons — nearly two-thirds of whom were low-income children or women of childbearing age — lost access to health services at the centers. While some funding has been restored to the program since 1983, it remains below 1981 levels, after adjustment for inflation.

- Similarly, maternal and child health programs — which are designed to combat infant mortality and childhood disability, to provide rehabilitation services for blind and disabled children, to furnish treatment and care for crippled children, and to provide other prenatal and children's health services — were reduced significantly. A Children's Defense Fund survey found that after the 1981 cuts in the program, some 44 states made cuts in prenatal and delivery services to low and moderate income women. Here, too, while there has been some restoration in funding since 1983, the programs remain well below 1981 levels.

Social Services

- Even larger reductions were made in the basic social services program for low and moderate income families and elderly and disabled persons — the Social Services Block Grant. This program provides funding for basic services such as day care for low and moderate income mothers who work, services for abused children, and services for homebound elderly and disabled persons. This program has been cut one-fourth in real terms since 1981. The Children's Defense Fund estimates that thousands of lower income families lost access to federally-supported day care services as a result.

Education and Child Nutrition Programs

- Cuts were made in the compensatory education program for disadvantaged children, a program with a proven track record in improving the reading and math scores of low income elementary school children and narrowing the gap in test scores between young black and white children.

- Reductions were also made in student financial aid programs for low and moderate income students trying to go to college (as well as guaranteed student loans which are focused more on middle-income students). The proportion of black high school graduates going to college declined after these cuts were made.

- Large reductions were made in child nutrition programs, including the school lunch and breakfast programs. Child nutrition programs were reduced 28 percent in 1981, according to the Congressional Budget Office, and these cuts were on top of earlier reductions made in 1980. Today about 2 million fewer school children eat school lunches each day than before the cuts were made (these figures take changes in school enrollments into account). About one-third of the decline in school lunch participation occurred among low and moderate income children.

- In addition, the amount charged for school lunches to children from moderate income families in the $14,000 to $20,000 range (for a family of four) has quadrupled since 1980 as a result of budget-cutting federal policy changes. A family in this income range with two children in school now pays over $100 more each year for its children's school lunches as a consequence.

Medicaid and Medicare

- Significant changes have been made in Medicaid, which provides health care coverage to families with children and elderly and disabled persons who are poor enough to qualify, and in Medicare, which provides health insurance for elderly persons in all income groups.

- Federal matching funds provided to states to operate Medicaid programs were reduced for fiscal years 1982 through 1984. Due both to these cutbacks and to budget pressures at the state level, over 40 states trimmed their Medicaid programs during this period, with the reductions including (in some states) elimination of Medicaid

coverage for certain categories of low income families and elderly persons, and reduction or elimination of coverage for some medical services.

- After the end of fiscal year 1984, the reduction in federal Medicaid matching funds ended. Some states have restored some of the cuts that were made. Many of the cuts and reductions remain in effect, however, and have become permanent parts of state Medicaid programs.*

- Many moderate and low income elderly individuals were also affected by budget reductions made in the Medicare program. Medicare premiums were raised, thereby increasing out-of-pocket costs to elderly beneficiaries. In addition, the amount Medicare beneficiaries must pay out of pocket for the first day in a hospital has soared from $180 in1980 to $492 as of January 1, 1986, in significant part because of changes made by Congress and the Administration in the Medicare payment structure.

  - These increases in beneficiary costs affect low and moderate income elderly Medicare beneficiaries except for those who have Medicaid coverage. (Medicaid pays these charges for persons it covers.) Many elderly persons below the poverty line — and most of the elderly in the $6,000 to $10,000 range (which is just above the poverty line) — lack Medicaid coverage and have had to bear these added costs.

Legal Services

- Finally, surveys by the Washington Council of Lawyers, a non-profit organization, found that some 375 legal services offices closed and the number of attorneys and paralegals providing services dropped 30 percent, in the wake of major funding reductions in the legal services program. Because of staff shortages, legal services offices in many areas now turn away significant numbers of indigent clients with legal problems.

These federal budget policies have contributed to the rise in poverty and helped widen the gap between rich and poor

The budget reductions have contributed to the increase in poverty — and also to the widening gap between lower and upper income Americans.

- A 1984 study by the Congressional Research Service of selected budget reductions enacted in 1981 (primarily the budget cuts in AFDC) found that these cuts pushed 560,000 persons — most of them children — below the poverty line. (This study does not cover the impacts of reductions in all programs or reductions enacted after 1981.)

- Work by economists Sheldon Danziger and Peter Gottschalk of the Institute for Research on Poverty at the University of Wisconsin, two of the nation's leading poverty analysts (and the only analysts able to correctly forecast the 1984 poverty rate in advance) indicates that the overall effect of all the budget reductions has been to increase the poverty rate by nearly a full percentage point — or by more than 2 million persons.

- A 1984 study by the Urban Institute found that budget cuts in benefits programs caused a 7.5 percent average reduction between 1980 and 1984 in the disposable income of households with incomes of less than $10,000 a year. The Urban Institute estimated that half of the large increase in poverty between 1979 and 1982 was due to budget reductions enacted during the Reagan Administration.

- A major Congressional Budget Office study issued in 1984 provides further informaiton on the impact of the budget cuts on low and moderate income households. CBO found that as a result of the budget (and tax) changes enacted from 1981 to 1983, households with incomes below $20,000 a year would lose $20 billion in income and benefits over the three-year period from 1983 to 1985.

- In addition, an analysis by the staff of the House Ways and Means Committee, based on data compiled by the

*There is one brighter note regarding Medicaid. In 1984, Congress required all states to provide Medicaid coverage to certain categories of poor women who are pregnant for the first time and to certain pregnant women and children up to age five who live in poor two-parent families. Many states had denied coverage to these persons in the past.

Congressional Research Service, found that federal spending on low income benefit programs fell over 15 percent per poor person from 1980 to 1983, after adjustments for inflation.

- Finally, Census data show that federal benefit programs remove significantly fewer families from poverty now than they did before the budget reductions occurred. In 1979, one of every nine female-headed families with children was removed from poverty by cash assistance programs other than Social Security. But in 1984, only one of every nineteen such families was lifted out of poverty by these programs.

The budget reductions not only had a significant impact on poverty rates, they also (in concert with changes in tax policies enacted since 1980) had a profound effect in widening the gaps between low and moderate income families and those who are already affluent.

- The Congressional Budget Office study which found that budget and tax changes enacted from 1981 to 1983 had taken $20 billion (over the 1983-1985 period) from those with income $20,000 a year also found that these policy changes caused *$35 billion increase* in the after-tax incomes of households with incomes of $80,000 or more. The households with incomes over $80,000 who gained so handsomely (they received an average gain of over $8,000 a year per household) constitute the wealthiest 1 to 2 percent of all U.S. households.

- Findings from the Urban Institute are similar. The Institute found that Reagan Administration policies (including budget, tax and general economic policies) resulted in losses in disposable income from 1980 to 1984 for average families in all income brackets — with the sole exception of families in the top 20 percent of the population. The largest losses were borne by families in the bottom two-fifths of the population, the Urban Institute determined.

- The Urban Institute concluded that Administration policies had "contributed to a substantial increase in income inequality" and that "only those in the top quintile [the top fifth] benefited from [these] policies." The Administration's policies "helped the affluent but were detrimental to the poor and the middle class," the Institute found.

Minorities and women also disproportionately affected

Because female-headed families and minorities are disproportionately poor and rely more heavily on federal benefit programs, the impacts of federal budget cuts were most severe for these families.

- Female-headed households comprise the bulk of the participants in many of the programs subject to the deepest cuts. About 90 percent of AFDC families are headed by women, as are nearly 70 percent of food stamp households and most of those in subsidized housing. Moreover, most of the elderly who participate in low-income programs are elderly women.

- Not surprisingly, from 1980 to 1983, the after-tax incomes of female-headed households fell more sharply than the incomes of any other group. Female-headed households with children received $4.3 billion less in after-tax income in 1983 than in 1980. This represented an average loss of $657 for every female-headed household with children in the nation (the loss would be even larger if reductions in non-cash benefits such as food stamps, day care services, and low-income housing were taken into account).

- Minorities also bore a disproportionate share of the budget reductions. The average black family lost more than three times as much in benefit reductions from the 1981 budget cuts as the average white family, according to an analysis by researchers at the Urban Institute. The average Hispanic family bore cuts twice as large as the average white family, as a result of the 1981 budget cuts.

- While black Americans comprise 12 percent of the total population, they make up between 30 and 40 percent of those assisted by a number of the low and moderate income programs that were most sharply cut. Hispanics comprise 7 percent of the overall population, but make up between 10 percent and 17 percent of the participants in a range of these programs.

V. FEDERAL ASSISTANCE PROGRAMS LEAVE LARGE GAPS AND PROVIDE LOW BENEFIT LEVELS

The budget cuts of the 1980s were made in programs that, in many ways, were already inadequate. Federal benefit programs have large gaps, failing to reach millions who are poor. The programs also provide benefit levels that, in most cases, fall well below the poverty line.

Gaps in basic assistance programs

Many low-income Americans are simply ineligible for any federal cash assistance or for federally supported health care coverage.

- In 25 states, families containing both parents are not eligible for AFDC (or for any federal cash welfare benefits), no matter how destitute they may be.

- Even in states which do not automatically disqualify two-parent families, the assistance is severely restricted. To be eligible, the head of household must be unemployed. If the household head manages to work more than 99 hours (or about 2½ weeks) in a month, the family becomes ineligible regardless of how low its income may be.

- Because these two-parent families are ineligible for AFDC, persons in these families (except for some pregnant women and children up to age five) are also ineligible for Medicaid in most states.

- In addition, in all states, poor individuals or couples without children are automatically ineligible for AFDC. Unless they are elderly or disabled, poor individuals and childless couples are automatically ineligible for Medicaid, as well, in most areas. State and local governments may provide some cash assistance to them, but the assistance is generally extremely meager and usually comes to only a small fraction of the poverty line. In many states and localities, no cash aid whatsoever is available for these persons.

- Many single-parent families that work but are still poor also are shut out of cash assistance programs. In almost all states, it is possible to have earnings that are several thousand dollars below the poverty line and still be ineligible for AFDC.

- In most states, the cutoff point at which earnings disqualify a family for AFDC is quite low. In Texas, earnings of just $326 a month ($3,912 a year) — or 36 percent of the poverty line — disqualify a family of four from any AFDC benefits after the mother's fourth month on the job.*

- In Arkansas, wages of $329 a month (about $3,948 a year) result in a cutoff of all AFDC benefits after the fourth month on the job (for a family of four). In Alabama, the cutoff point is even lower. Earnings of only $252 a month, or just over $3,000 a year, cause AFDC benefits to cease, even though this equals just 27 percent of the poverty line.

- Nationwide, there were 40 states in January 1985 where the earnings cutoff for AFDC benefits (after a mother's fourth month on the job) was at or below $7,000 a year for a family of four; $7,000 is less than two-thirds of the poverty line for a four-person family.

- This means that mothers who work full-time year-round at the minimum wage but still find themselves far below the poverty line are generally ineligible for cash assistance in most states. In large numbers of states, they are ineligible for Medicaid as well.

- In fact, more than three of every ten children below the poverty line are now left out of Medicaid, according to the Children's Defense Fund. One-third of all pregnant women with incomes less than $15,000 have neither public nor private health insurance.

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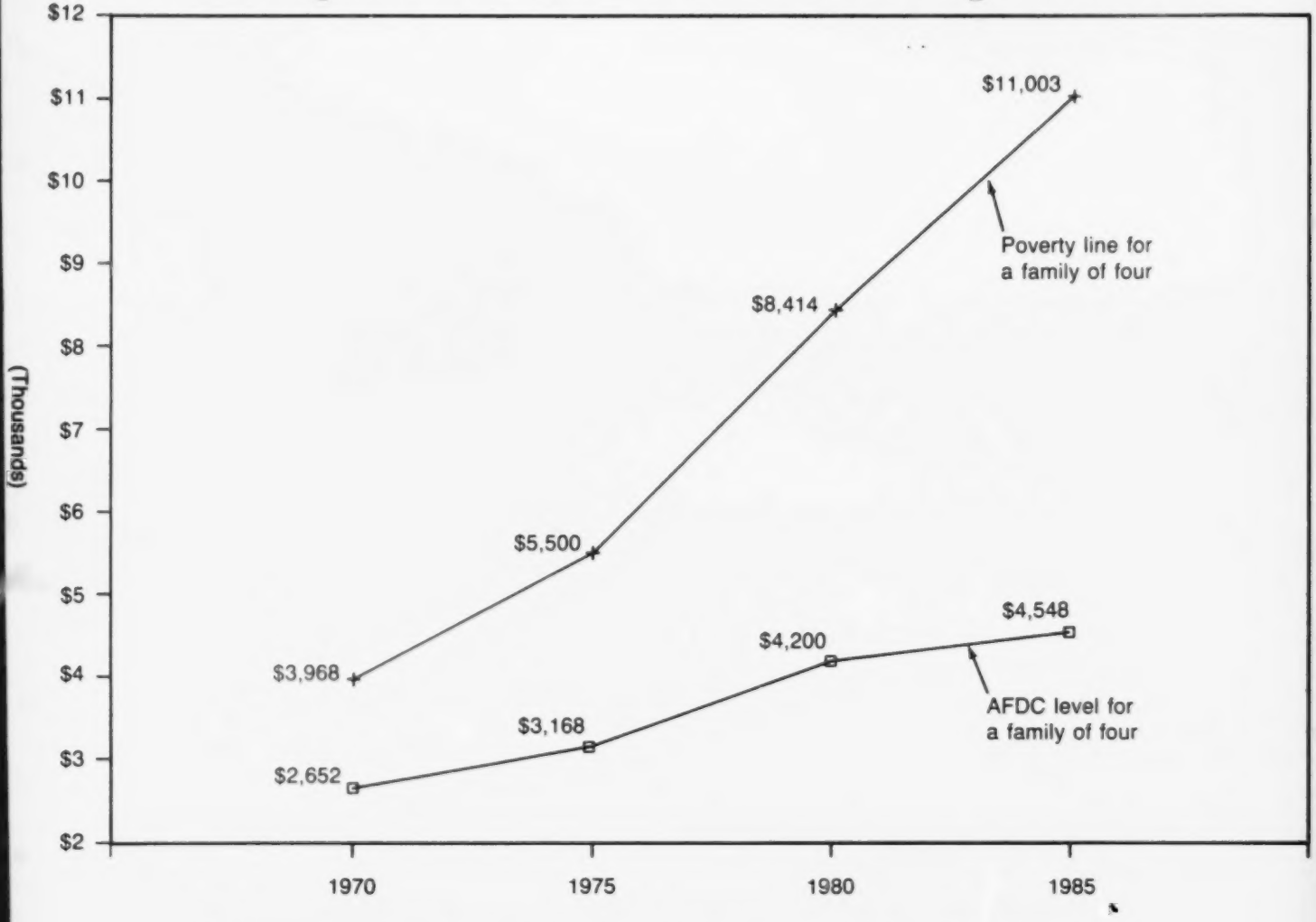
*The income cutoffs referred to in this section apply to families without child care expenses. Families with child care expenses can earn somewhat more before losing all benefits. Most working families on AFDC do not incur child care expenses, however.

AFDC Benefit in Typical State* Compared to the Poverty Line



*Typical state refers to the median state, that is, the state whose benefits are exactly in the middle when the state AFDC benefits are ranked from highest to lowest. Half of the states have AFDC benefits greater than those in the median state, and half have AFDC benefits that are lower.

Sources: Committee on Ways and Means, U.S. House of Representatives, Background Material and Data on Programs Within the Jurisdictions of the Committee on Ways and Means, February 22, 1985, and Bureau of the Census, Money Income and Poverty Status of Families and Persons in the United States.

- Millions more Americans who live on limited incomes but are modestly above the poverty line also lack any health care coverage. Census data indicate that approximately 35 million Americans in all now lack any health insurance.

Low AFDC benefit levels

For those families that can qualify for AFDC, benefit levels are generally quite low.

- There is not a single state where the AFDC benefit for a family of four reaches 75 percent of the poverty line. Half of the states offer AFDC benefits that are less than 50 percent of the poverty line.

- As of January 1985, the typical (or median) state offered a benefit equal to just 41 percent of the poverty line — $379 a month ($4,550 a year) for a family of four, which comes to just $12 a day.

- In Mississippi, the state with the lowest benefits, the maximum payment for a family of four with no other income is $144 a month ($1,730 a year), or less than 16 percent of the poverty line. In Alabama, the same family would receive $147 a month. In oil-rich Texas, the maximum benefit for a family of four is less than one-quarter of the poverty line — just $221 a month.

- Low benefit levels are not confined to the South. Illinois, a midwestern state with the fifth largest population in the nation, has an AFDC benefit level that comes to only about two-fifths of the poverty line ($385 a month). Indiana, another midwestern state, provides a benefit of only $316 a month, a little over one-third of the poverty line, to a family of four with no other means.

- Even the inclusion of food stamps does not raise a poor family's income to the poverty line. There is no state in the country where the combined benefit from AFDC and food stamps equals the poverty line. In half the states, the combined benefits from AFDC and food stamps do not reach two-thirds of the poverty line.

The purchasing power of AFDC benefits has declined precipitously over the past 15 years.

- One reason AFDC benefits are so low is that in most states, the benefit levels have not been adjusted to keep up with inflation. Taking inflation into account, AFDC benefits have fallen *37 percent* since 1970 in the typical state. (Unlike Social Security and the Supplemental Security Income program for the elderly and disabled poor, there is no automatic cost-of-living adjustment for AFDC benefits.) The decline in the purchasing power of the benefits has occurred in nearly every state in the country. No other group in the U.S. population has lost so much to inflation in recent years as AFDC families have.

- In two of the largest states, AFDC benefits are now worth less than half of their value in 1970. In Texas, even after a recent benefit increase, AFDC benefits have declined 55 percent since 1970, after adjusting for inflation. In Illinois, AFDC benefits have declined 51 percent (in inflation-adjusted terms) since 1970.

- In 1970, when the poverty line for a family of four was $3,968, the Illinois benefit for a family of four with no other income was $3,384 a year — or 92 percent of the poverty line. By 1985, the poverty line is projected to be $11,000 for a family of four (the upward adjustment since 1970 reflects the impact of inflation). However, the AFDC benefit in Illinois stands at just $4,620 today. As a result, the Illinois benefit level fell from 92 percent of poverty in 1970 to 42 percent of the poverty line in 1985.

Supplemental Security Income benefits

While benefits for the elderly and disabled poor in the Supplemental Security Income (SSI) program are higher than in the AFDC program, SSI benefits still fall below the poverty line in most states.

- The maximum federal SSI benefit for an elderly or disabled individual ($325 a month, or $3,900 a year) now equals just 71 percent of the poverty line. For an elderly or disabled couple, the maximum federal benefit level (which is $488 a month, or $5,856 a year) equals 84 percent of the poverty line.

- A number of states supplement the federal SSI benefit for some or all SSI recipients with an additional benefit from state funds. However, SSI state supplements are not automatically adjusted for inflation — and since 1974 when the SSI program was instituted, the value of the state supplements has fallen over 20 percent in inflation-adjusted terms.

In addition, SSI does not reach indigent persons in the 60 to 65 age bracket.

- While some other federal programs use age 60 or 62 to determine elderly status, persons who are not blind or disabled must be at least 65 to qualify for SSI. Indigent individuals or couples between 60 and 65 years of age are automatically ineligible for SSI. They consequently are ineligible for Medicaid as well in most areas (Medicaid eligibility for the elderly is generally linked to SSI eligibility).

- In some jurisdictions, there is no cash assistance or health coverage of any sort provided to low income persons in the 60 to 65 age group, regardless of how indigent they are.

Benefit levels in the food stamp and energy assistance programs

Food stamp benefits are more broadly available to the poor without restrictions on age or family type. However, food stamp benefits are quite modest.

- The average food stamp benefit is now 49 cents per person per meal. The maximum benefit—available only to families so poor they have no income left after meeting certain other basic necessities— is 73 cents per person per meal.

- U.S. Department of Agriculture surveys show that most families whose food expenditures equal the maximum food stamp benefit do not get adequate diets. Only about one-tenth of families whose food spending is at this level obtain the U.S. recommended daily allowances for the basic nutrients, the surveys show. To deal with this problem, many low income families on food stamps dig into their limited budgets to spend more for food, in an effort to get enough to eat. However, as their incomes have been squeezed further from reductions in other assistance programs, this has become harder to do.

The low income energy assistance program was created in the late 1970's at a time when federal policy decisions to decontrol oil prices, coupled with severe OPEC oil price increases, were sharply increasing household energy bills. The program was intended to defray large increases in fuel bills being faced by low income households.

- Due to budget pressures, however, the program never attained the size originally envisioned by the Carter Administration. Low income energy assistance benefits now offset only a small fraction of the steep increases in the heating and other energy bills of poor families.

- In fact, studies done for the Department of Energy indicate that the energy assistance program offsets only about one-third of the increase just from 1977 to 1980 in the low income population's fuel bills.

- An April 1984 study by the National Consumer Law Center found that during the winter of 1984, low income elderly persons living alone in 35 states had less than $50 a week left from their SSI checks for rent, food, clothes and other needs, after paying their heating bills.

Large numbers of eligible persons left outside the programs

Not only are benefit levels modest in these programs, but the programs actually fail to reach millions of low income persons who are eligible for benefits.

- About 10 million persons eligible for food stamps (at least one-third of those eligible) do not receive them. Food stamp participation is now at its lowest level since early 1980, despite the fact that millions more Americans live below the poverty line than in 1980.

- Approximately 35 percent of the elderly eligible for SSI do not receive SSI benefits, including more than one million eligible elderly persons living below the poverty line.

- AFDC participation rates have been dropping in recent years. According to the Urban Institute, 22 percent of those eligible for AFDC—over 2 million persons—do not receive AFDC benefits. Most of these persons are poor children.

- In addition, in many other low income programs (programs which are not "entitlements"), funding is limited—and there is room for only a fraction of those eligible.

  — The Special Supplemental Food Program for Women, Infants, and Children (the WIC program) reaches less than half of the low income pregnant women, infants, and children at nutritional risk who qualify.

  — In the typical state, low income energy assistance benefits reach slightly over a quarter of the eligible households.

  — The highly acclaimed Headstart program reaches less than one-fifth of low income children.

  — There are waits of months or years in many cities for public or subsidized housing assistance.

Severe contraction of the unemployment insurance system

As noted earlier in this report, the protection provided by the unemployment insurance has eroded greatly in the past several years. Probably no other program has diminished in scope so much as unemployment insurance.

- A far smaller proportion of the unemployed receive unemployment insurance than ever before. In October 1985, the percentage of jobless workers receiving benefits fell to an all-time record low. Three-fourths of all unemployed workers received no benefits that month.

- Many states with unemployment rates well above the national average in October were among those with the lowest percentage of jobless workers receiving benefits. For example, in Michigan, where the unemployment rate was 10.3 percent in October, only 17 percent of the unemployed (one in six) received unemployment benefits. 344,000 jobless workers in Michigan received no benefits last month.

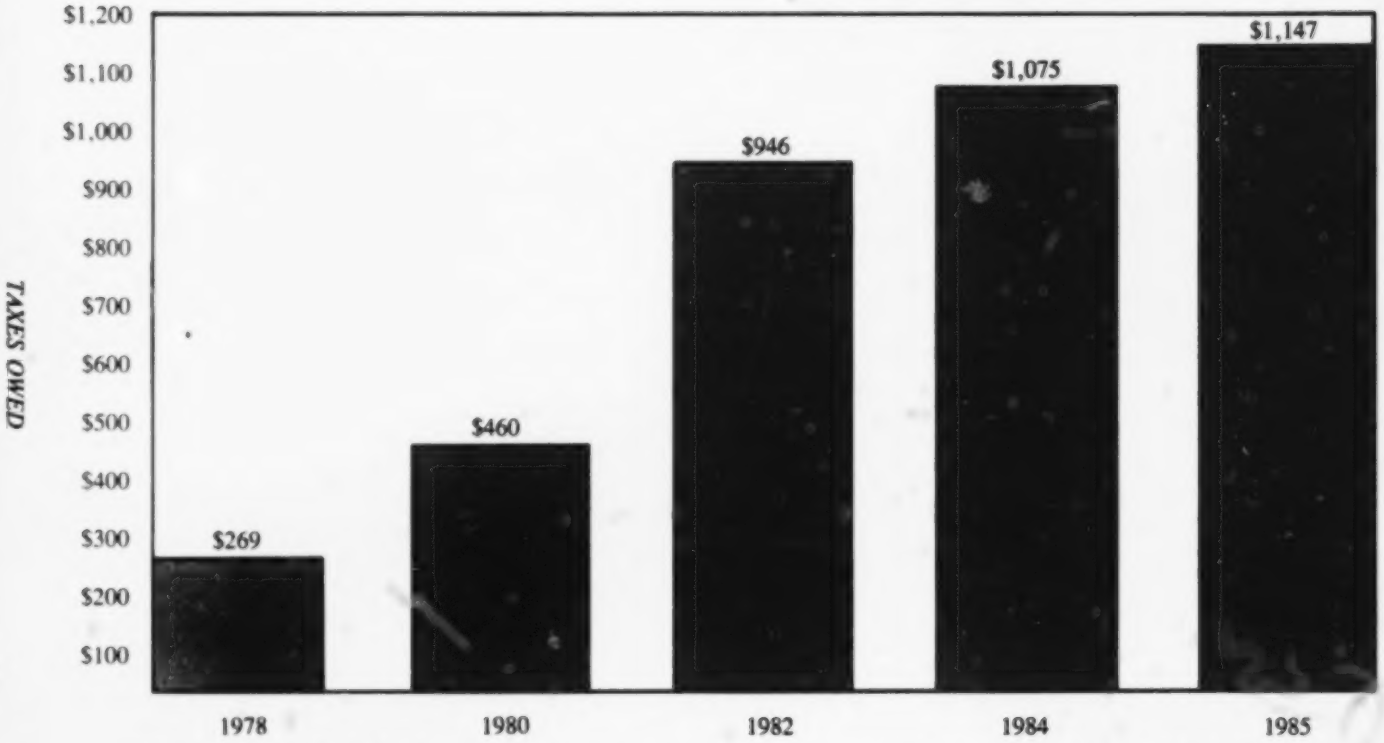
- In Texas, where the unemployment rate was 8.1 percent, only 16 percent of the unemployed received benefits, leaving over one-half million jobless workers without benefits.

- In Ohio and Illinois, states where unemployment exceeded 9 percent in October, only 21 percent and 22 percent, respectively, of unemployed workers received benefits, leaving about 400,000 without benefits in each state.

- On a nationwide basis, the number of jobless workers without benefits in October stood at 5.9 million—as many as at the bottom of the recession in November 1982, when the unemployment rate was 10.7 percent.

- In addition, for those who do receive unemployment benefits, the level of benefits has not kept pace with inflation. Nationally, the average weekly unemployment benefit amount has declined by 11 percent since 1970, after adjusting for inflation.

Increasing Tax Burden of Families At The Poverty Line



This chart shows the Federal payroll and income taxes owed by a two-parent family of four at the poverty line for selected years.

Source: Joint Committee on Taxation, U.S. Congress; U.S. Department of Treasury, Internal Revenue Service.

VI. RISING EXPENDITURES FACED BY LOW AND MODERATE INCOME FAMILIES

At a time when poverty has increased and federal support programs have been reduced, those with low and moderate incomes have had to face still another burden — rapidly rising costs for basic necessities. In addition, those low and moderate income families who work have also had their taxes raised.

Housing Costs

Housing costs for low and moderate income families and elderly persons have escalated sharply, due in large part to growing shortages of low-rent housing. Recent studies by the Census Bureau and the General Accounting Office show how acute the problem has become.

- The most recent Annual Housing Survey conducted by the Census Bureau (which is for 1983) found that 55 percent of all renters with incomes below $7,000 a year are spending more than 60 percent of their incomes on rent and utilities.

- Eighty percent of these renters with incomes under $7,000 pay more than 35 percent of their income on rent and utilities.

- This problem has rapidly been growing worse in recent years. The General Accounting Office found that among lower income households, the number paying more than half their income for rent and utililties increased from 3.7 million in 1975 to 6.3 million in 1983.

Energy Costs

The sharp rises in rents have been aggravated by severe increases since the early 1970s in home energy costs. The massive increases in heating and other home energy bills have hit low income households much harder than the rest of the population.

- Between 1972 (just prior to the Arab oil embargo) and 1984, the cost of home heating oil increased by almost 450 percent, according to a study by the National Consumer Law Center. The study also reported that in the same time period, the cost of heating with natural gas increased five-fold and residential electric prices increased three-fold.

- While rising fuel bills have affected all Americans, Department of Energy data show that the increases in these costs ate up a far larger percentage of the income of low and moderate income families than of more affluent families.

- The National Consumer Law Center, in another study, found that in 1984, average annual home energy costs for the poor exceeded $1,000 in 21 states.

- As a result of these steeply increasing energy costs, larger numbers of households have also had their heating gas supply disconnected because of inability to pay their energy bills. A nationwide survey of utilities, done by the National Consumer Law Center, projected that in 1984, over 1.8 million households would lose their natural gas service due to delinquent payments.

Increased Tax Burdens Borne by Low and Moderate Income Working Families

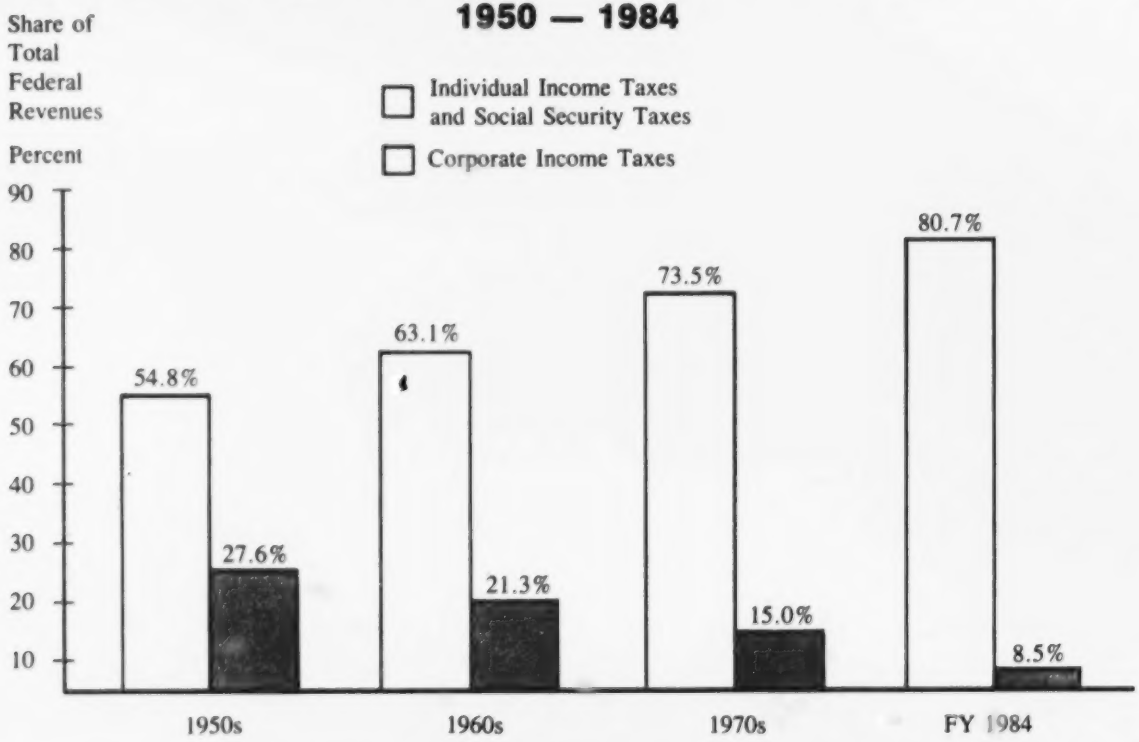
For low and moderate income Americans who work, one other expense has increased greatly as well — their taxes.

- Since 1978, federal tax burdens for the working poor have soared. A two-parent family of four with earnings at the poverty line paid $269 in federal income and payroll tax in 1978, $460 in 1980, and $1,147 in 1985.

- Measured as a percentage of income, this family's federal taxes have jumped from 4 percent of income in 1978 and 5.5 percent in 1980 to 10.4 percent in 1985.

Shift in Federal Tax Burdens From Corporations to Individuals

1950 — 1984



Sources: Joint Committee on Taxation, *Tax Policy and Capital Formation* (April 1977); and Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1986-1990.*

- Families with gross incomes *below* the poverty line have also been heavily affected. In the late 1970s, most families below the poverty line did not pay federal income tax. Today a family of four with gross income $1,500 below the poverty line must pay income tax. A family of six with gross earnings $4,300 below the poverty line must pay federal income tax.

- As a result, Census data show that in the four years from 1979 to 1983 (the latest year for which Census has issued these data), the number of households below the poverty line who had to pay federal income tax *more than tripled.* Census data also show that the total amount of federal income taxes paid by households below the poverty line rose 204 percent from 1979 to 1983, after adjustment for inflation.*

- These data show that the federal government is taxing away an increasing share of income from those households who, by its own definition, do not have enough to live on.

- On top of these increases in federal tax burdens, low and moderate income families have faced increases in state and local taxes as well. State and local taxes as a whole tend to be more regressive than the federal income tax (i.e., they take a larger percentage of income from poor and moderate income persons than from more affluent ones). With cutbacks in federal funding for many services provided by state and local governments, as well as budget pressures at state and local levels, state and local taxes have been raised in many areas in recent years — and these increases, too, have disproportionately affected those who work but have low incomes.

- The number of households with incomes below the poverty line who had to pay state income taxes increased 30 percent from 1980 to 1983 (these data are not available for years before 1980). The amount that these households paid in state income taxes jumped 37 percent during this period, after adjusting for inflation.

These tax increases effectively pushed more families into poverty.

- The Census data also show that there were 2.9 million person in 1983 who lived in households with gross incomes above the poverty line, but who were pushed below the poverty line when federal and state income and payroll taxes were taken out of their paychecks.**

- This represented a sharp increase from 1979, when 1.9 million persons — or one million fewer — were pushed into poverty by taxes.

The causes of these striking increases in the federal tax burdens of low income working families lie largely in federal policy decisions made in recent years.

- The roots of the rise in low income tax burdens lie, in significant part, in the 1981 tax act. Until 1981, a basic pattern had developed in tax legislation — every few years Congress would adjust income taxes to offset some or all of the effects of inflation on income tax burdens. As part of these earlier pieces of tax legislation, Congress regularly raised the standard deduction or the personal exemption, both of which have a much larger impact on the tax burdens of low income working families than does the basic tax rate schedule.

- In addition, in the 1975 and 1978 tax acts, Congress established and then enlarged the "earned income tax credit," which was designed to help shield poor families from income taxes and to offset some of the increases in Social Security payroll taxes on low income working families.

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*These figures do not reflect the "refundable" portion of the earned income tax credit (EITC). If a low income family's federal income tax liability is less than the earned income tax credit which the household is due, the Internal Revenue Service sends the family a check for the difference. The amount of such a check constitutes the "refundable" portion of the earned income tax credit.

**These figures do not reflect the impact of the "refundable" portion of the earned income tax credit. If this is taken into account, the number of persons effectively dropped into poverty after paying taxes was 2.6 million in 1983. No similar figure (i.e., a figure taking the refundable portion of the earned income tax credit into account) is available for 1979.

- In 1981, however, this pattern ended. After a period of particularly high inflation, the Congress and the Administration adopted a tax bill that provided no adjustment in the standard deduction or personal exemption until 1985 and no adjustment whatsoever in the earned income tax credit.* The major tax increases borne by low and moderate income working families are in significant part a consequence of this decision.

- While the 1981 tax act thus allowed tax burdens for low income working families to rise rapidly, it nevertheless provided large tax reductions for affluent taxpayers and large corporations. The 1981 act substantially reduced the top tax rate on investments and other unearned income, which affected families with incomes of over $85,000 a year. It roughly halved the federal estate tax in a manner benefiting the wealthiest three percent of U.S. families.

- Moreover, a study by the Congressional Joint Committee on Taxation found that the wealthiest 5.6 percent of all taxpayers received more than 35 percent of the tax benefits provided by the across-the-board rate cuts in the 1981 Act.

- The 1981 Act also reduced tax rates on profits from capital gains, which disproportionately accrue to wealthy investors. The maximum rate of tax that affluent investors pay on capital gains profits is actually *lower* today than the combined marginal income and payroll tax now paid by a working family of four earning just $12,000 a year.

- In addition, the 1981 Act reduced taxes on corporations. While the scope of the corporate tax breaks was reduced by subsequent legislation, the net result has still been a major tax reduction for many large companies. While corporate income taxes contributed 25 percent of all federal revenues in the 1950s and early 1960s and 12.5 percent of federal revenues in 1980, corporate taxes contributed just 8.5 percent of federal revenues in 1984.

In short, there has been a shift in tax burdens. Tax burdens have been shifted away from corporations, and from more affluent individuals to those with low and moderate incomes. This shift has contributed to the widening gaps between lower and upper income families in the United States.

- The Urban Institute has found that the average overall tax burden on American families (including state and local taxes) was the same in 1984 as in 1980 — but that some groups of families paid more while others paid less.

- Nor surprisingly, the division occurred along income lines. "The bottom 40 percent of families are paying proportionately more of their income in taxes [than in 1980]," the Urban Institute reported, "with most of the increased burden falling on the poorest 20 percent of families." Affluent families, by contrast, are paying less of their incomes in taxes than in the past.

*Congress later made a small adjustment in the earned income tax credit (EITC) in 1984, but this adjustment offsets less than one-fifth of what the EITC has lost to inflation since 1979.

VII. CONCLUSION

The data presented here on the economic status of low and moderate income Americans indicate that we are now witnessing a rather ominous series of developments. The gaps between lower and upper income families are widening, poverty rates have increased, disproportionate reductions have been made in programs for the less well-off, benefit levels have declined and program coverage has contracted in many of the most basic assistance programs, rent burdens for those of limited means are increasing, and federal tax burdens imposed on the growing numbers of those who work but are still poor have soared.

These developments should be matters of concern to all Americans, not just to those whose incomes are low. With one of every four Americans falling into poverty at some point during each decade — and with economic dislocations making more families vulnerable to job loss at a time when the safety net has been weakened — the conditions described here will eventually affect many millions of Americans whose incomes are not low today.

The nation faces many tough choices in the years ahead, including choices on how to reduce the federal deficit and restore a better trade balance. But one of the most fundamental decisions facing the society is whether to allow the trends described in this report to continue and to permit the further deterioration of the economic status of low and moderate income Americans. This question deserves to be given as much attention and accorded as high a priority in the years ahead as any other issue before our nation.

APPENDIX

THE DEBATE OVER THE POVERTY COUNT

In recent years, a debate has developed over the definition of poverty. Some critics have argued that the value of non-cash benefits (such as food stamps, Medicaid and Medicare) should be counted as income when poverty is measured — and that if this were done, significantly fewer Americans would be classified as poor.

While there are legitimate criticisms of the current way of measuring poverty, this issue is far more complex than some of the critics have portrayed it. Indeed, the issue is sufficiently complex that it is not clear whether a careful redefinition of poverty would show a decrease or an increase in the number of Americans who are considered poor.

Background: The Definition of Poverty

Poverty was first officially defined by the U.S. government in the 1960s. A federal "poverty line" was established, and households whose gross cash incomes fell below this level were considered poor.

The "poverty line" was set by multiplying by three the cost of the U.S. Department of Agriculture's "economy food plan." (The economy food plan was the lowest cost food plan the government had devised.*) Data from this period showed that low income families spent approximately one-third of their incomes for food. Accordingly, it was reasoned that a household needed an income three times the cost of the economy plan in order to afford the foods in the plan. Any household having less income than needed to purchase the foods in the government's lowest cost food plan was considered poor.

Since the 1960s, this initial poverty line has been updated each year by adjusting it to cover inflation.

Current Criticisms of the Poverty Count

In recent years, some critics (including some Administration officials) have contended that use of the official poverty definition exaggerates the true extent of poverty in the U.S. These critics note that under the official poverty definition, only cash income is counted — ignoring food stamps, Medicare, Medicaid, subsidized housing, and other benefits not provided in a cash form. If these non-cash benefits were counted, the critics observe, the number of persons considered to be living in poverty would be smaller.

This criticism has some validity. Food stamps, for example, obviously do increase families' purchasing power and standard of living. Nevertheless, there are problems with this critique of the official poverty definition. Those who make this criticism often ignore other shortcomings in the official poverty definition — shortcomings that result in an *under*statement of the number of those considered to be poor (and that, if addressed, would be likely to lead to an increase in the poverty count.)

The Other Shortcomings in the Official Poverty Definition

A. The Issue of Taxes

In determining whether households are poor, households' gross incomes *before taxes* are counted. This means that the portion of a household's earnings that is withheld for taxes, and that never even passes through the household's hands, is counted in full as though it were available to be spent.

If critics wish to argue that non-cash benefits such as food stamps can be used to purchase household necessities — and therefore should be counted in determining whether a household has enough resources to rise above the poverty line — then it stands to reason that earnings that are withheld for taxes, and that cannot be used for any household needs, should not be counted.

This matter is of no small significance. If the poverty definition were based (as it should be) on *after*-tax incomes, the number of persons considered to be poor would increase by two and one half to three million. A substantial number of families whose gross incomes place them above the poverty line — and who currently are not counted as poor — would be considered to be below the poverty line if after-tax incomes were used as the basis for the poverty determination.

*The economy food plan was later refined slightly and renamed the "thrifty food plan." In its current incarnation as the thrifty food plan, it serves as the basis for the benefit levels provided in the food stamp program.

B. Is the Poverty Line Set Too Low?

Another weakness in the current poverty definition concerns the appropriateness of the dollar thresholds used as the "poverty line." In the years since the poverty definition was established in the early 1960s, the prices of items such as home heating and health care have risen much faster than food prices. As a result, these other necessities now comprise a larger share of family budgets than they did 20 years ago, while food costs comprise a smaller share. Food costs now appear to comprise less than one-third of family budgets.

This fact is significant. It means that to afford the economy food plan (which has since been refined and renamed the "thrifty food plan") while still meeting other basic necessities, households may now need a level of income that is more than three times the cost of the food plan. If the concept behind the original poverty line is to be maintained — namely, that the poverty line is to reflect the income needed to purchase this minimum diet plan — then the cost of the food plan may need to be multiplied by a factor larger than three when the poverty line is computed. This change may be necessary to have a poverty line that accurately reflects current household expenditure patterns.

If this adjustment in the poverty line computation were made, the poverty line would be fixed at a higher level than it currently is. The number of Americans with incomes below the poverty line would increase.

In short, there are several legitimate criticisms of the current poverty definition — and the fact that non-cash benefits are not counted is only one of these criticisms. To be sure, counting non-cash benefits would lower the poverty count, but remedying the other shortcomings would raise the poverty count. If all these issues were resolved together, the net result might well be an overall increase in the official poverty count.*

Overstating the Value of Non-cash Benefits

A final issue concerns how to assign dollar values to non-cash benefits. If a decision is made to count non-cash benefits as income, a difficult decision would still remain as to how to determine how much these benefits are worth. For example, how much should be added to a family's cash income to reflect that it has Medicaid or Medicare coverage?

Some who favor counting the non-cash benefits have suggested use of a method for valuing these benefits that places a very high dollar value on the benefits (the "market value" approach). A number of other economists and poverty analysts do not favor this approach, however, because they believe it overstates the benefits' value. For example, under this approach, Medicaid and Medicare are given so high a dollar value that some elderly persons who have no cash income are considered to be above the poverty line simply because they have a Medicaid card. In other words, for some elderly persons, a Medicaid card is considered to have a monetary value greater than the poverty line — so that some elderly persons with Medicaid coverage are considered not to be poor, even if they are destitute and have no funds to purchase basic necessities. Such a definition of poverty seems to defy common sense. However, this is the definition most commonly used when the argument is made that the official poverty count substantially exaggerates the number of Americans who should be considered poor.

Poverty Trends in Recent Years

Finally, it should be noted that poverty rates have risen as fast or faster in recent years under measures of poverty that include non-cash benefits as under the official definition of poverty.

Using the official poverty rate, poverty increased 23 percent between 1979 and 1984, while the number of poor persons rose by 7.6 million.

Under the various non-cash definitions of poverty the Census Bureau employs, however, the poverty rate rose 29 percent to 43 percent during this period, and the number of poor persons increased by 7.3 to 8.6 million. The larger increase in poverty if non-cash benefits are counted appears to reflect the impact of budget reductions in non-cash benefit programs.

*One recent analysis by the Census Bureau found that, if food stamps and housing were counted as income but after-tax rather than pre-tax income were used, the number of persons considered to be below the poverty line would remain essentially unchanged.

SOURCES

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